103
CARIBBEAN BASIN FREE TRADE AGREEMENTS ACT
Y 4. W 36: 103-28
Caribbean Basin Free Trade Agreemen... NG

SUBCOMMITTEE ON TRADE

AND THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

H.R. 1403

TO ENSURE THAT THE CARIBBEAN BASIN INITIATIVE IS NOT ADVERSELY AFFECTED BY THE IMPLEMENTATION OF THE NORTH AMERICAN FREE TRADE AGREEMENT AND TO APPLY "FAST TRACK" APPROVAL PROCEDURES TO FREE TRADE AGREEMENTS ENTERED INTO BETWEEN THE UNITED STATES AND CERTAIN CARIBBEAN BASIN COUNTRIES

JUNE 24, 1993

Serial 103–28

Printed for the use of the Committee on Ways and Means

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CONTENTS

Page

Press release of Tuesday, June 8, 1993, announcing the hearing 2
H.R. 1404, text 4

WITNESSES

Amalgamated Clothing & Textile Workers Union, AFL–CIO, Arthur Gundersheim 163
American Apparel Manufacturers Association, William K. Woltz, Jr 123
American Association of Exporters & Importers, Stephen Lande 140
American Tourister, Inc., Tom Korbas 147
Association of American Chambers of Commerce in Latin America, David Hirschmann 130
Ariza, His Excellency Jose Del Carmen, Ambassador to the United States from the Government of the Dominican Republic 76
Bernal, His Excellency Richard L., Ambassador to the United States from the Government of Jamaica 64
Birdsall, John H., III (*See* listing for Tropical Shipping & Construction Co., Ltd.).
Caribbean/Latin American Action, Andrew Postal 112
Central American & Caribbean Textile & Apparel Council, Eric Hoyle 152
Costa Rica, Government of, His Excellency Gonzalo J. Facio, Ambassador 55
Dominican Republic, Government of, His Excellency Jose del Carmen Ariza, Ambassador 76
Economic Vice Ministers of Central America and Panama, Eduardo Sperisen . 91
Ermatinger, Robert K., Luggage & Leather Goods Manufacturers of America, Inc 171
Facio His Excellency Gonzalo J., Ambassador to the United States from the Government of Costa Rica 55
Florida International Affairs Commission:
  Hon. James Hargett 99
  Charles Ranson 99
  Hon. Alzo Reddick 99
  Richard Salem 99
Frausto, Karen, Tropical Shipping & Construction Co., Ltd 107
Graham, Hon. Bob, a U.S. Senator from the State of Florida 51
Guatemala, Government of, Eduardo Sperisen, Vice Minister of Economy 91
Guatemalan Association of Exporters of Non-Traditional Products, Juan Sanchez Botran 137
Gundersheim, Arthur, Amalgamated Clothing & Textile Workers Union, AFL–CIO 163
Hargett, Hon, James, a State Senator from Florida 99
Hirschmann, David, Association of American Chambers of Commerce in Latin America 130
Hoyle, Eric, Central American & Caribbean Textile & Apparel Council, and Sara Lee Intimates 152
Jamaica, Government of, His Excellency Richard L. Bernal, Ambassador 64
Judy Bond, Inc., Andrew Postal 112
Korbas, Tom, American Tourister, Inc 147
Lande, Stephen, American Association of Exporters & Importers, and Manchester Trade, Ltd 140
Luggage & Leather Goods Manufacturers of America, Inc., Robert K. Ermatinger 171
Manchester Trade, Ltd., Stephen Lande 140

Page

McKnight, Her Excellence Corinne, Ambassador to the United States from the Government of the Republic of Trinidad and Tobago 82
Perry Manufacturing Co., William K. Woltz., Jr 123
Postal, Andrew, Caribbean/Latin American Action, and Judy Bond, Inc 112
Rangel, Hon. Charles B., a Representative in Congress from the State of New York 27
Ranson, Charles, Fine, Jacobson, Schwartz, Nash, Block & England, Tallahassee, Fla 99
Reddick, Hon. Alzo, (Florida) State Representative of Florida 99
Rose, Hon. Charlie, a Representative in Congress from the State of North Carolina 45
Salem, Richard, Salem, Saxon & Nielsen, Tampa, Fla 99
Sanchez Botran, Juan, Guatemalan Association of Exporters of Non-Traditional Products 137
Sara Lee Intimates, Eric Hoyle 152
Snowe, Hon. Olympia, a Representative in Congress from the State of Maine . 38
Sperisen, Eduardo, Vice Minister of Economy, Government of Guatemala, and the Economic Vice Ministers of Central America and Panama 91
Trinidad and Tobago, Government of, Her Excellency Corrine McKnight, Ambassador 82
Tropical Shipping & Construction Co., Ltd., Karen Frausto on behalf of John H. Birdsall III 107
Woltz, William K., Jr., American Apparel Manufacturing Association, and Perry Manufacturing Co 123

SUBMISSIONS FOR THE RECORD

American Chamber of Commerce in Guatemala, Ignacio E. Silva, statement ... 180
Asociacion Hondurena De Maquiladores, Jacobo G. Kattan S., letter (translation attached) 183
Association of American Chambers of Commerce of Latin America, J. Mark Werner, statement 185
Bor, Robert M., Queensland Sugar Corp.; and CSR, Ltd., joint letter 237
Bryan, Anthony T., University of Miami, Caribbean Studies Program, North-South Center, statement 187
Caribbean Building Systems Limited, Kingston, Jamaica, Paul F.X. Chang, letter 192
Caribbean Shipping Association, Kingston, Jamaica, Alvin Henry, letter 193
Carter Footwear, Inc., Wilkes-Barre, Pa., Howard Gonchar, letter 195
Castelton Holdings, Inc., Steven B. Lehat, letter 198
Chang, Paul F.X., Caribbean Building Systems Limited, Kingston, Jamaica, letter 192
Cooper, Mitchell J., Rubber and Plastic Footwear Manufacturers Association, statement and attachments 239
Costa Rican-American Chamber of Commerce, James S. Dahlstrom, statement 201
Crane, Hon. Phil, a Representative in Congress from the State of Illinois, statement 203
CSR, Ltd., Robert M. Bor, joint letter 237
Dahlstrom, James S., Costa Rican-American Chamber of Commerce, statement 201
Florida State Office of the Comptroller, Department of Banking and Finance, Gerald Lewis, letter 204
Friedmann, Peter, Section 222 Coalition: Timberland Co., Hampton, N.H.; Lowell Shoe, Inc., Hudson, N.H.; Rocky Shoes & Boots, Nelsonville, Ohio; G.H. Bass, Inc., Falmouth, Maine; Sperry Top-Sider, Inc., Cambridge, Mass., statement 245
Gonchar, Howard, Carter Footwear, Inc., Wilkes-Barre, Pa., letter 195
Henry, Alvin, Caribbean Shipping Association, Kingston, Jamaica, letter 193
Industrial Commercial Developments Limited, Kingston, Jamaica, Guy Martin, letter 205
International Intellectual Property Alliance, Eric H. Smith, letter and attachment 207
Johnston, Charles, Shipping Association of Jamaica, letter 247
Kattan S., Jacobo G., Asociacion Hondurena De Maquiladores, letter (translation attached) 183
Langlois, James A., National Apparel and Textile Association, statement 233
Lehat, Steven B., Castelton Holdings, Inc., letter 198

Page

Lewis, Gerald, Florida State Office of the Comptroller, Department of Banking and Finance, letter 204
Martin, Guy, Industrial Commercial Developments Limited, Kingston, Jamaica, letter 205
Motion Picture Export Association of America, Inc., statement 219
National Apparel and Textile Association, James A. Langlois, statement 233
Private Sector Organisation of Jamaica Ltd., statement 234
Queensland Sugar Corp., and CSR, Ltd., Robert M. Bor, joint letter 237
Rubber and Plastic Footwear Manufacturers Association, Mitchell J. Cooper, statement and attachments 239
Section 222 Coalition: Timberland Co., Hampton, N.H.; Lowell Shoe, Inc., Hudson, N.H.; Rocky Shoes & Boots, Nelsonville, Ohio; G.H. Bass, Inc., Falmouth, Maine; Sperry Top-Sider, Inc., Cambridge, Mass., Peter Friedmann, statement 245
Shipping Association of Jamaica, Charles Johnston, letter 247
Silva, Ignacio E., American Chamber of Commerce in Guatemala, statement .. 180
Smith, Eric H., International Intellectual Property Alliance, letter and attachment 207
Timberland Co., Hampton, N.H., Sidney Swartz, statement 249
Werner, J. Mark, Association of American Chambers of Commerce of Latin America, statement 185

CARIBBEAN BASIN FREE TRADE AGREEMENTS ACT

THURSDAY, JUNE 24, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE AND
SUBCOMMITTEE ON OVERSIGHT,
Washington, D.C.

The subcommittees met, pursuant to notice, at 9:30 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the Subcommittee on Trade) and Hon. J.J. Pickle, (chairman of the Subcommittee on Oversight) presiding.

[The press release announcing the hearing and a copy of the bill, H.R. 1403, follow:]

FOR IMMEDIATE RELEASE
TUESDAY, JUNE 8, 1993

SUBCOMMITTEE ON TRADE #11
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN,
SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES
A PUBLIC HEARING ON H.R. 1403,
THE "CARIBBEAN BASIN FREE TRADE AGREEMENTS ACT"

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will hold a public hearing on H.R. 1403, the "Caribbean Basin Free Trade Agreements Act." The hearing will be held on Thursday, June 24, 1993, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m.

H.R. 1403 was introduced by Mr. Gibbons, Mr. Pickle, Mr. Rangel, and Mr. Crane on March 18, 1993, to ensure that the Caribbean Basin Initiative (CBI) is not adversely affected by the implementation of the North American Free Trade Agreement (NAFTA) and to apply "fast track" approval procedures to free trade agreements entered into between the United States and certain Caribbean Basin countries. The bill was jointly referred to the Committees on Ways and Means and Rules.

Specifically, H.R. 1403 would grant tariff and quota treatment on imports from CBI beneficiary countries of articles currently excluded from CBI duty-free treatment, identical to the treatment accorded like imports from Mexico under the NAFTA (so-called "NAFTA parity"), for a period of up to three years, subject to NAFTA rules of origin, customs procedures, and safeguard provisions. The U.S. Trade Representative would be required to determine the desirability and feasibility of any CBI beneficiary country or group of countries either to accede to the NAFTA and its supplemental agreements or to enter into comprehensive reciprocal free trade agreements with the United States. The President would be authorized, before June 1, 1996, to enter into trade agreements with CBI beneficiary countries under the "fast track" Congressional implementing procedures.

Countries not acceding to the NAFTA or entering into free trade agreements would continue to receive current CBI benefits, but would no longer receive the additional "NAFTA parity" benefits after three years. The CBI program, instituted on January 1, 1984, provides unilateral duty-free treatment on eligible imports from 24 Caribbean Basin countries or territories, except textiles and apparel, footwear, certain leather-related products, petroleum and petroleum products, canned tuna, and certain watches.

The Subcommittee will be particularly interested in testimony on the potential impact of the NAFTA on Caribbean Basin economies, on the provisions of the bill, and on the prospects for further Caribbean economic integration through free trade arrangements.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Requests to be heard must be made by telephone to Harriett Lawler, Diane Kirkland, or Karen Ponzurick [telephone (202) 225-1721] by close of business Thursday, June 17, 1993. The telephone request should be followed by a formal written request to Janice Mays, Chief Counsel and Staff Director, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee office [(202) 225-3943].

(MORE)

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are requested to briefly summarize their written statements. The full statement will be included in the printed record.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 150 copies of their prepared statement to the Subcommittee on Trade office, room 1136 Longworth House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any interested person or organization may file written comments for inclusion in the printed record of the hearing. Persons submitting written comments for the printed record should submit at least six (6) copies of their comments by the close of business Friday, July 2, 1993, to Janice Mays, Chief Counsel and Staff Director, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the printed record of the hearing wish to have their statements distributed to the press and the interested public, they may provide 100 additional copies for this purpose to the Subcommittee office, room 1136 Longworth House Office Building, before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

* * * * * * * * * * *

I

103D CONGRESS
1ST SESSION

H. R. 1403

To ensure that the Caribbean Basin Initiative is not adversely affected by the implementation of the North American Free Trade Agreement and to apply "fast track" approval procedures to free trade agreements entered into between the United States and certain Caribbean Basin countries.

IN THE HOUSE OF REPRESENTATIVES

MARCH 18, 1993

Mr. GIBBONS (for himself, Mr. PICKLE, Mr. CRANE, and Mr. RANGEL) introduced the following bill; which was referred jointly to the Committees on Ways and Means and Rules

---

A BILL

To ensure that the Caribbean Basin Initiative is not adversely affected by the implementation of the North American Free Trade Agreement and to apply "fast track" approval procedures to free trade agreements entered into between the United States and certain Caribbean Basin countries.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Caribbean Basin Free Trade Agreements Act".

SEC. 2. CONGRESSIONAL FINDINGS.

The Congress finds that the continuation and strengthening of the commitment of the United States, as expressed by the enactment of the Caribbean Basin Economic Recovery Act and the Caribbean Basin Economic Recovery Expansion Act of 1990, to the successful development of the Caribbean region requires the enactment of provisions—

(1) to encourage the continuation of structural reform efforts by Caribbean countries toward market economies and trade liberalization;

(2) to preserve existing economic advantages under the Caribbean Basin Initiative program and avoid the potential diversion of investment from beneficiary countries under the program to Mexico as a result of the North American Free Trade Agreement;

(3) to maintain and increase trade benefits under the Caribbean Basin Initiative program in order to promote further economic development and political stability in beneficiary countries and to expand United States export opportunities in the Caribbean region; and

(4) to encourage and create further economic integration in the Western Hemisphere through free trade arrangements that provide United States busi-

ness and labor reciprocal benefits through the removal of barriers to trade and investment in goods and services on a mutually advantageous basis.

TITLE I—RELATIONSHIP OF NAFTA IMPLEMENTATION TO THE OPERATION OF THE CARIBBEAN BASIN INITIATIVE

SEC. 101. TEMPORARY PROVISIONS TO PROVIDE NAFTA PARITY TO BENEFICIARY COUNTRY ECONOMIES.

(a) TEMPORARY PROVISIONS.—Section 213(b) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2703(b)) is amended to read as follows:

"(b) IMPORT-SENSITIVE ARTICLES.—

"(1) IN GENERAL.—Subject to paragraphs (2) through (5), the duty-free treatment provided under this title does not apply to—

"(A) textile and apparel articles which are subject to textile agreements;

"(B) footwear not designated at the time of the effective date of this title as eligible articles for the purpose of the generalized system of preferences under title V of the Trade Act of 1974;

"(C) tuna, prepared or preserved in any manner, in airtight containers;

"(D) petroleum, or any product derived from petroleum, provided for in headings 2709 and 2710 of the Harmonized Tariff Schedule of the United States;

"(E) watches and watch parts (including cases, bracelets and straps), of whatever type including, but not limited to, mechanical, quartz digital or quartz analog, if such watches or watch parts contain any material which is the product of any country with respect to which HTS column 2 rates of duty apply; or

"(F) articles to which reduced rates of duty apply under subsection (h).

"(2) NAFTA TRANSITION PERIOD TREATMENT OF CERTAIN TEXTILE AND APPAREL ARTICLES.—

"(A) EQUIVALENT TARIFF AND QUOTA TREATMENT.—During the transition period—

"(i) the tariff treatment accorded at any time to any textile or apparel article that originates in the territory of a beneficiary country shall be identical to the tariff treatment that is accorded during such time under section 2 of the Annex to a like

article that originates in the territory of Mexico and is imported into the United States;

"(ii) duty-free treatment under this title shall apply to any textile or apparel article of a beneficiary country that is imported into the United States and that—

"(I) meets the same requirements (other than assembly in Mexico) as those specified in Appendix 2.4 of the Annex (relating to goods assembled from fabric wholly formed and cut in the United States) for the duty free entry of a like article assembled in Mexico; or

"(II) is identified under subparagraph (C) as a handloomed, handmade, or folklore article of such country and is certified as such by the competent authority of such country; and

"(iii) no quantitative restriction or consultation level may be applied to the importation into the United States of any textile or apparel article that—

"(I) originates in the territory of a beneficiary country,

"(II) meets the same requirements (other than assembly in Mexico) as those specified in Appendix 3.1.B.10 of the Annex (relating to goods assembled from fabric wholly formed and cut in the United States) for the exemption of a like article assembled in Mexico from United States quantitative restrictions and consultation levels, or

"(III) qualifies for duty-free treatment under clause (ii)(II).

"(B) NAFTA TRANSITION PERIOD TREATMENT OF NONORIGINATING TEXTILE AND APPAREL ARTICLES.—

"(i) PREFERENTIAL TARIFF TREATMENT.—Subject to clause (ii), the United States Trade Representative may place in effect at any time during the transition period with respect to any textile or apparel article that—

"(I) is a product of a beneficiary country; but

"(II) does not qualify as a good that originates in the territory of that country;

tariff treatment that is identical to the preferential tariff treatment that is accorded during such time under Appendix 6.B of the Annex to a like article that is a product of Mexico and imported into the United States.

"(ii) PRIOR CONSULTATION.—The United States Trade Representative may implement the preferential tariff treatment described in clause (i) only after consultation with representatives of the United States textile and apparel industry and other interested parties regarding—

"(I) the specific articles to which such treatment will be extended,

"(II) the annual quantity levels to be applied under such treatment and any adjustment to such levels,

"(III) the allocation of such annual quantities among the beneficiary countries that export the articles concerned to the United States, and

"(IV) any other applicable provision.

"(iii) ADJUSTMENT OF CERTAIN BILATERAL TEXTILE AGREEMENTS.—The United States Trade Representative shall undertake negotiations for purposes of seeking appropriate reductions in the quantities of textile and apparel articles that are permitted to be imported into the United States under bilateral agreements with beneficiary countries in order to reflect the quantities of textile and apparel articles of each respective country that are exempt from quota treatment by reason of paragraph (2)(A)(iii).

"(C) HANDLOOMED, HANDMADE, AND FOLKLORE ARTICLES.—For purposes of subparagraph (A), the United States Trade Representative shall consult with representatives of the beneficiary country for the purpose of identifying particular textile and apparel goods that are mutually agreed upon as being handloomed, handmade, or folklore goods of a kind described in section 2.3(a), (b), or (c) or Appendix 3.1.B.11 of the Annex.

"(D) BILATERAL EMERGENCY ACTIONS.—The President may take—

"(i) bilateral emergency tariff actions of a kind described in section 4 of the Annex with respect to any textile or apparel article imported from a beneficiary country if the application of tariff treatment under subparagraph (A) to such article results in conditions that would be cause for the taking of such actions under such section 4 with respect to a like article that is a product of Mexico; or

"(ii) bilateral emergency quantitative restriction actions of a kind described in section 5 of the Annex with respect to imports of any textile or apparel article described in subparagraph (B)(i)(I) and (II) if the importation of such article into the United States results in conditions that would be cause for the taking of such actions under such section 5 with respect to a like article that is a product of Mexico.

"(3) NAFTA TRANSITION PERIOD TREATMENT OF CERTAIN OTHER ARTICLES ORIGINATING IN BENEFICIARY COUNTRIES.—

"(A) EQUIVALENT TARIFF TREATMENT.—

"(i) IN GENERAL.—Subject to clause (ii), the tariff treatment accorded at any time during the transition period to any article referred to in any of subparagraphs (B) through (F) of paragraph (1) that originates in the territory of a beneficiary country shall be identical to the tariff treatment that is accorded during such time under Annex 302.2 of the NAFTA to a like article that originates in the territory of Mexico and is imported into the United States. Such articles shall be subject to the provisions for emergency action under chapter 8 of part two of the NAFTA to the same extent as if such articles were imported from Mexico.

"(ii) EXCEPTION.—Clause (i) does not apply to any article accorded duty-free treatment under U.S. Note 2(b) to subchapter II of chapter 98 of the Harmonized Tariff Schedule of the United States.

"(B) RELATIONSHIP TO SUBSECTION (h) DUTY REDUCTIONS.—If at any time during the

transition period the rate of duty that would (but for action taken under subparagraph (A)(i) in regard to such period) apply with respect to any article under subsection (h) is a rate of duty that is lower than the rate of duty resulting from such action, then such lower rate of duty shall be applied for the purposes of implementing such action.

"(4) CUSTOMS PROCEDURES.—The provisions of chapter 5 of part two of the NAFTA regarding customs procedures apply to importations under paragraphs (2) and (3) of articles from beneficiary countries.

"(5) DEFINITIONS.—As used in this subsection—

"(A) The term 'the Annex' means Annex 300–B of the NAFTA.

"(B) The term 'NAFTA' means the North American Free Trade Agreement entered into between the United States, Mexico, and Canada on December 17, 1992.

"(C) The term 'textile or apparel article' means any article referred to in paragraph (1)(A) that is a good listed in Appendix 1.1 of the Annex.

"(D) The term 'transition period' means, with respect to a beneficiary country, the period that begins on the date that the NAFTA enters into force with respect to the United States; and ends on the earlier of—

"(i) the date that is the 3rd anniversary of the date on which the NAFTA enters into force; or

"(ii) the date on which—

"(I) there enters into force with respect to the United States a trade agreement entered into under the authority of section 202(a) of the Caribbean Basin Free Trade Agreements Act and to which the beneficiary country is a party, or

"(II) the beneficiary country accedes to the NAFTA.

"(E) An article shall be treated as having originated in the territory of a beneficiary country if the article meets the rules of origin for a good set forth in chapter 4 of part two of the NAFTA or in Appendix 6.A of the Annex. In applying such chapter 4 or Appendix 6.A with respect to a beneficiary country for purposes of

this subsection, no countries other than the United States and beneficiary countries may be treated as being Parties to the NAFTA.".

(b) CONFORMING AMENDMENTS.—The Caribbean Basin Economic Recovery Act is further amended—

(1) by amending section 212(e)(1)(B) to read as follows:

"(B) withdraw, suspend, or limit the application of the duty-free treatment under this subtitle, and the tariff and preferential tariff treatment under section 213(b)(2) and (3), to any article of any country,"; and

(2) by inserting "and except as provided in section 213(b)(2) and (3)," after "Tax Reform Act of 1986," in section 213(a)(1).

SEC. 102. EFFECT OF NAFTA ON SUGAR IMPORTS FROM BENEFICIARY COUNTRIES.

The President shall monitor the effects, if any, that the implementation of the North American Free Trade Agreement has on the access of beneficiary countries under the Caribbean Basin Economic Recovery Act to the United States market for sugars, syrups, and molasses. If the President considers that the implementation of the Agreement is affecting, or will likely affect, in an adverse

manner the access of such countries to the United States market, the President shall promptly—

(1) take such actions, after consulting with interested parties and with the appropriate committees of the House of Representatives and the Senate; or

(2) propose to the Congress such legislative actions;

as may be necessary or appropriate to ameliorate such adverse effect.

TITLE II—CARIBBEAN BASIN FREE TRADE AGREEMENTS

SEC. 201. TRADE AGREEMENT FEASIBILITY AND OBJECTIVES.

As soon as practicable, the United States Trade Representative shall determine the desirability and feasibility of, and a likely timetable for, any country that is a beneficiary country for purposes of the Caribbean Basin Economic Recovery Act, or a group of such beneficiary countries, either—

(1) acceding to—

(A) the North American Free Trade Agreement pursuant to Article 2204 of such Agreement, and

(B) as appropriate, supplemental agreements pertaining to environmental, labor, and import issues; or

(2) entering into comprehensive bilateral or multilateral agreements with the United States that contain provisions that—

(A) are comparable to the provisions of the North American Free Trade Agreement and, as appropriate, to the provisions of supplemental agreements pertaining to environmental, labor, and import issues, and

(B) will achieve the applicable purposes, policies, and objectives set forth in section 212(b) and (c) of the Caribbean Basin Economic Recovery Act and section 1101 of the Omnibus Trade and Competitiveness Act of 1988.

The United States Trade Representative shall consult with the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate regarding the determinations made under this section.

SEC. 202. TRADE AGREEMENT NEGOTIATING AUTHORITY.

(a) IN GENERAL.—

(1) EFFECTIVE PERIOD OF AUTHORITY.—Before June 1, 1996, the President may enter into

trade agreements with one or more beneficiary countries under the Caribbean Basin Economic Recovery Act providing for the elimination or reduction of any duty imposed by the United States and for the reduction or elimination of barriers to, or other distortions of, the international trade of the beneficiary countries or the United States, if each such agreement would comply with section 201(2).

(2) LIMITATION.—Notwithstanding any other provision of law, no trade benefit shall be extended to any country by reason of the extension of any trade benefit to another country under a trade agreement entered into under paragraph (1) with such other country.

(b) CONSULTATION WITH CONGRESS BEFORE AGREEMENTS ENTERED INTO.—

(1) Before the President enters into any trade agreement under subsection (a), the President shall consult with—

(A) the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate; and

(B) each other committee of the House and the Senate, and each joint committee of the Congress, which has jurisdiction over legislation

involving subject matters which would be affected by the trade agreement.

(2) The consultation under paragraph (1) shall include—

(A) the nature of the agreement;

(B) how and to what extent the agreement will achieve the applicable purposes, policies, and objectives of this title; and

(C) all matters relating to the implementation of the agreement under section 203.

(3) If it is proposed to implement two or more trade agreements in a single implementing bill under section 203(a), the consultation under paragraph (1) shall include the desirability and feasibility of such proposed implementation.

SEC. 203. IMPLEMENTATION OF TRADE AGREEMENTS.

(a) IN GENERAL.—

(1) REQUIREMENTS FOR ENTERING INTO FORCE.—Any agreement entered into under section 202(a) shall enter into force with respect to the United States if (and only if)—

(A) the President, at least 90 calendar days before the day on which he enters into the trade agreement, notifies the House of Representatives and the Senate of his intention to

enter into the agreement, and promptly thereafter publishes notice of such intention in the Federal Register;

(B) after entering into the agreement, the President submits a document to the House of Representatives and to the Senate containing a copy of the final legal text of the agreement, together with—

(i) a draft of an implementing bill,

(ii) a statement of any administrative action proposed to implement the trade agreement, and

(iii) the supporting information described in paragraph (2); and

(C) the implementing bill is enacted into law.

(2) SUPPORTING INFORMATION.—The supporting information required under paragraph (1)(B)(iii) consists of—

(A) an explanation as to how the implementing bill and proposed administrative action will change or affect existing law; and

(B) a statement—

(i) asserting that the agreement makes progress in achieving the agreement

requirements set forth in section 201(2)(A) and (B), and

(ii) setting forth the reasons of the President regarding—

(I) how and to what extent the agreement makes progress in achieving the agreement requirements set forth in section 201(2)(A) or (B), and why and to what extent the agreement does not achieve other applicable purposes, policies, and objectives,

(II) how the agreement serves the interests of United States commerce, and

(III) why the implementing bill and proposed administrative action is required or appropriate to carry out the agreement.

(3) APPLICATION.—To ensure that a foreign country which receives benefits under a trade agreement entered into under section 202(a) is subject to the obligations imposed by such agreement, the President shall recommend to Congress in the implementing bill and statement of administrative action submitted with respect to such agreement that the

benefits and obligations of such agreement apply solely to the parties to such agreement, if such application is consistent with the terms of such agreement. The President may also recommend with respect to any such agreement that the benefits and obligations of such agreement not apply uniformly to all parties to such agreement, if such application is consistent with the terms of such agreement.

(b) APPLICATION OF CONGRESSIONAL "FAST TRACK" PROCEDURES TO IMPLEMENTING BILLS.—The provisions of section 151 of the Trade Act of 1974 (19 U.S.C. 2191) apply to implementing bills submitted with respect to trade agreements entered into under section 202(a) before June 1, 1996.

(c) CONFORMING AMENDMENT.—Section 151(b)(1) of the Trade Act of 1974 (19 U.S.C. 2191(b)(1)) is amended by striking out "or section 1103(a)(1) of the Omnibus Trade and Competitiveness Act of 1988" and inserting ", section 1103(a)(1) of the Omnibus Trade and Competitiveness Act of 1988, and section 202(a) of the Caribbean Basin Free Trade Agreements Act".

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Chairman GIBBONS. Good morning, ladies and gentlemen. This is a joint meeting of the Trade and Oversight Subcommittees of the Committee on Ways and Means. I am glad that Chairman Pickle has appeared to share the responsibilities of this hearing this morning. The subject matter, of course, is the Caribbean Basin Initiatives.

I am glad that so many of you are here, as I think all of you know that this is the last day of the session as far as appropriations bills are concerned in the House.

We may be interrupted today by various votes. We are certainly going to be interrupted today by various other committee meetings going on at the same time. So I hope everyone will guide themselves with that and be prepared for those interruptions and changes.

The purpose of this meeting this morning is to give oversight to the progress that has been made in the Caribbean, to see what needs to be done about the future of the Caribbean, and to consider the legislation that I have proposed to allow the Caribbean, for a limited period of time in which negotiations could take place, the same types of benefits that Mexico would receive under NAFTA.

It is my hope that the administration would include the substance of the proposal that is before us this morning within their submission to the Congress under NAFTA. If that is true, we can guarantee with one vote that the people of the Caribbean and the people of Mexico will receive equal treatment as far as access is concerned to this market and that the people of the Caribbean will have a 3-year period in which to negotiate for permanent extension of those rights to the Caribbean nations.

So, Mr. Pickle, do you have a statement that you would like to make at the opening of this hearing?

Chairman PICKLE. Thank you, Mr. Chairman. I am pleased to join you in this hearing.

By way of review, I would remind our audience that in 1986, the Oversight Subcommittee reviewed the overall CBI program and observed that there existed several serious problems about the program, how it was operating, and how it should continue.

In 1987, our subcommittee visited the CBI countries and actually visited at least five countries and had firsthand visitation with the leadership in those countries. As a result, we came back and we fashioned a law in the Customs and Trade Act of 1990, and we made the CBI program permanent.

Now we are in the process of reviewing how we will proceed on this program. I have urged the State Department and the Special Trade Representatives to give priority to another visit to the CBI countries. I think it is timely and necessary, so we can reassure our CBI neighbors that they should be entitled to at least parity treatment under the NAFTA measure, if it is enacted. At least we want to give them that consideration.

We have, as a committee, been very concerned about the 936 funds being used under this program. Originally there were very little funds being used. We finally were able to put into law a requirement that at least $100 million would be available annually from 936 funds to the CBI countries.

The Puerto Rican Government has cooperated in this program, and today we have not only exceeded, we have gone up to $600 million in loans.

Now before we clap our hands, that is a very small portion of the money that is involved in the 936 deposits in Puerto Rico. But it is an indication that they have cooperated and tried to help use those funds for good uses.

I am a little dismayed to hear that indirectly they indicate that they might cut off the 936 funds if the 936 fund program is affected in the pending tax legislation. I hope that is not going to be a problem.

But we have now the question of reviewing the overall CBI program, particularly how it affects that region if we adopt NAFTA. And we want to be sure they have parity. And I think that is the purpose of the hearing, and I am pleased that so many witnesses have shown an interest in coming and testifying, Mr. Chairman.

I thank you.

[The prepared statement follows:]

OPENING STATEMENT
THE HONORABLE J. J. PICKLE, CHAIRMAN
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
THURSDAY, JUNE 24, 1993

I am pleased to join today with the Subcommittee on Trade in this hearing which is of critical importance to the countries of the Caribbean basin. The Subcommittee on Oversight has had a long-standing interest in the Caribbean Basin Initiative (CBI) program. In 1986, the Subcommittee held hearings to review the impact and effectiveness of the CBI. In January of 1987, a delegation from the Subcommittee on Oversight visited five countries in the Caribbean and Central American region in order to get a first-hand look at the problems and concerns raised during the Subcommittee's 1986 hearings. Among the countries we visited were Jamaica, Costa Rica, and the Dominican Republic, all of whom will be represented at today's hearing.

As a result, the Subcommittee made recommendations to the full Ways and Means Committee on improvements in the CBI legislation. Many of these recommendations were adopted as part of the Customs and Trade Act of 1990. Among other things, this legislation made the CBI program permanent. I hope that in the not too distant future, the Subcommittee on Oversight can return to the CBI region. I have been in touch with the Department of State and the Office of the United States Trade Representative in this regard, and have urged them to make this trip a priority matter.

The Subcommittee on Oversight has also been concerned about the use of Section 936 funds for loans to CBI countries for business investments and development projects in the Caribbean region. As part of the Customs and Trade Act of 1990, the "commitment" of the Government of Puerto Rico--to see that $100 million in loans of Section 936 funds are made each year--was written into the law. The 936/CBI loan program was slow to start up, but there has been steady improvement, and Puerto Rico has now disbursed about $680 million of Section 936 funds in loans to the CBI region. Although this sum represents a small fraction of the 936 funds on deposit in Puerto Rico, Puerto Rico has exceeded its $100 million commitment during the past three years. Pending resolution of the future of Section 936, the 936/CBI loan program has been put on hold. I trust that when the future of Section 936 is resolved, the loan program will start up again.

Today's hearing on H.R. 1403, the "Caribbean Basin Free Trade Agreements Act," offers us a valuable opportunity to explore the inter-relationship between the CBI and the North American Free Trade Agreement (NAFTA). This bill responds to the concerns of our Caribbean and Central American neighbors about the impact NAFTA will have on the economic progress they have made as a result of the CBI legislation. Clearly, economic strength is essential to the political stability of America's neighbors in the CBI region. Therefore, today's hearing will provide an opportunity for the affected parties to be heard.

As I stated when introducing H.R. 1403 with Mr. Gibbons, my intent is to help the CBI countries and not to slow-down in any way progress in adopting NAFTA. I still take this position and very much appreciate Chairman Gibbons arranging for this hearing today.

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Chairman GIBBONS. Thank you, Mr. Pickle. I want to pay tribute to your effective and dedicated and long-term interest in the challenges and the problems of the Caribbean. It has been a pleasure to work alongside with you in this, Mr. Pickle, and I commend you for your dedicated service.

Chairman PICKLE. Thank you, Mr. Chairman.

Chairman GIBBONS. Our first witness this morning is another dedicated member of Congress, who has paid a lot of attention to the Caribbean.

Mr. Rangel, would you come forward. We would be glad to hear you.

STATEMENT OF THE HONORABLE CHARLES B. RANGEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. RANGEL. Thank you, Mr. Chairman. I ask unanimous consent that my written statement be entered into the record.

Chairman GIBBONS. Yes, sir. And, Mr. Rangel, we will provide unanimous consent for all witnesses this morning who have statements that they may not read in their entirety, to put their statements in the record.

Mr. RANGEL. Mr. Chairman, let me thank you for the interest that you have shown in this part of the world. As you might suspect, I have many constituents that even though they may not have directly come from the Caribbean, certainly their parents and grandparents have, and so the cultural tie has always been there.

One of the proudest moments I have had in the Congress was to see the interest of our committee, when we had an opportunity to visit this area and to see how earnestly the people in that area loved and respected the United States and, of course, to recognize that over the years, we have sometimes accepted the love, but never really returned anything in terms of trying to assist in development. Funds then, as now, were running low in terms of grants of assistance, but still the idea of building up trade.

I will never forget as long as I live the method that you used, Mr. Chairman, in determining whether it made sense, as you walked around looking at the various manufactured items that they had in each and every country and looking at where it was manufactured. And as you name the cities and States, it became abundantly clear that the overwhelming majority of the things that these people were purchasing was purchased in the United States.

And as a result of the dramatic increase in trade, New York City has dramatically increased its exports, and we are fourth behind, I think, Texas and Florida and Louisiana.

And so it really has worked. Many time you try to do things, but it does not work out. In this particular case, it has.

As relates to the 936, due to the diligent oversight of my friend, Jake Pickle, we have improved the cooperation of Puerto Rico. And, yes, Chairman Pickle, not only have they threatened to cut the loans, but because the situation as relates to the direction that 936 is going, they have stopped giving the loans to the Caribbean countries, and indeed so-called 936 companies have stopped expansion and locating in Puerto Rico, making decisions to go to the Dominican Republic and other places other than Puerto Rico.

So I am certain that after the conference, with your support and others, that we will not have this situation exist, and the investors will know exactly what the situation is as relates to 936.

In any event, it has worked, and now that the Congress is considering entering into a treaty, the North American Free Trade Agreement, it seems to me that it makes a lot of sense that as we try to do the same thing, expand our trade within the continent and certainly with our neighbors to the south, that we do not do this at the expense of smaller countries and long-time friends.

And Mr. Gibbons, Chairman Gibbons, has been very, very sensitive to this. I think the legislation that we are talking about amply takes care of it. And it is not just what happens; it is the fear of what can happen, and the mere introduction of this legislation has given some comfort to the economists and the leaders of these Caribbean countries. And it lets them know that no matter what we do, what changes we make in treaties, that we will not forget our friends and especially those smaller economies that depend so much on decisions that we make in our great republic.

I thank you for this opportunity, Mr. Chairman, and certainly Chairman Pickle, who really has a deep concern in the oversight of section 936, which is so closely related to the Caribbean Basin Initiative.

[The prepared statement follows:]

TESTIMONY OF CONGRESSMAN CHARLES B. RANGEL
BEFORE
THE SUBCOMMITTEES ON TRADE AND OVERSIGHT OF THE COMMITTEE ON WAYS AND MEANS
ON
H.R. 1403, THE "CARIBBEAN BASIN FREE TRADE AGREEMENTS ACT"
JUNE 24, 1993

Chairman Gibbons and Pickle, I thank you for the opportunity you have given me to appear before this joint hearing on of the Subcommittees on Trade and oversight to express my strong support for our bill, H.R.1403, to provide parity market access to the Caribbean in the event a North American Free Trade Agreement is ratified by Congress. Although I am presently reserving judgment on NAFTA, I have been and remain a strong and enthusiastic supporter of the Caribbean Basin Initiative (CBI) which since its passage in 1983, has promoted a decade of unparalleled growth in trade between the Caribbean and the United States.

Mr. Chairmen, we on the Committee on Ways and Means can feel particularly proud of the CBI. We initiated it in 1983 to promote greater trade and commerce between the United States and the Caribbean, our island neighbors who had been for too long taken for granted or neglected. We felt then that if we would provide greater access to the United States market for goods from the Caribbean we would be stimulating economic growth and promoting sustainable development. We were confident that the approach would do more to promote sustainable development in the region than all the foreign assistance we would be able to provide. The results of the past decade have proved us correct. Your parity bill, Mr. Chairman, is designed to protect and sustain the remarkable economic benefits produced by the CBI for the economies of the Caribbean and for our economy here at home.

In just ten years, we have seen the U.S. exports to the region nearly double, and Caribbean exports to the United States climb by close to 50%. In 1992, the United States posted yet another trade surplus with the Caribbean Basin -- for the seventh year in a row. The Caribbean now comprises the tenth largest market for the United States; for the Caribbean the United States is by far the largest market. Combined trade between the

United States and the Caribbean exceeded $20 billion in 1992, supporting countless jobs in the U.S. and throughout the region.

My own New York has benefited from this increased trade with the Caribbean. We have experienced a rise in exports from New York to the Caribbean and Latin America of over 33% in period from 1987 to 1990. Increased exports, as we all know, means jobs at home, so we in New York have a real stake in preserving the benefits of the CBI.

The rise in exports to the region from New York is even more impressive when one focuses on our trading relationship with specific nations. I checked the recent history of the trade between New York and Jamaica, Guatemala, the Dominican Republic and Trinidad & Tobago, four nations whose governments will be represented before our committee today, and found that New York has enjoyed truly significant, even spectacular growth in our exports to each.

- New York State exports to Jamaica increased 163%, from $27 million to $72 million from 1987 to 1990;
- New York State exports to Guatemala increased 85%, from 410 million to $19 million between 1987 and 1990;
- New York State exports to the Dominican Republic have increased by 43%, $100 million to $143 million between 1987 and 1990, and
- New York State exports to Trinidad and Tobago increased by 28%, from $14 million to $18 million between 1987 and 1990.

New York ranks fourth, after the states of Florida, Texas and Louisiana in the dollar value of exports to Caribbean. It is clear that in cosponsoring this Caribbean parity legislation I am joining Chairmen Gibbons and Pickle in recognizing that it is very much in the interest of our home states as well as in the interests of the Caribbean that trade fostered by the Caribbean Basin Initiative continue to be encouraged. Proven CBI trading partners should not be disadvantaged by the tilting of the playing field toward Mexico if a NAFTA is enacted.

The Caribbean Basin Free Trade Act which we have cosponsored responds to concerns expressed by the 24 Caribbean and Central American CBI beneficiary national that it ratified, the North America Free Trade Agreement will adversely impact them, by attracting existing and potential new investment from the region to Mexico. This would

particularly be the case in the textile and apparel sector, where a NAFTA will provide greater access to U.S. market for garments from Mexico than from the Caribbean . H.R. 1403 will provide so-called "NAFTA Parity" to Caribbean Basin Initiative eligible nations by granting them the same tariff and quota treatment that will apply to imports from Mexico of textiles and apparel and other products currently excluded from access to the U.S. market under the CBI.

The bill also lays the groundwork for the CBI to become part of longer-term economic integration of the entire Western Hemisphere. The bill limits the extension of NAFTA parity to Caribbean nations to a maximum of 3 years and authorizes the President in the interim period to seek comprehensive reciprocal trade agreements under extended Congressional "fast track" implementing procedures with Caribbean nations. The extension of additional benefits on a permanent basis is linked to the requirement that our Caribbean trading partners enter into a reciprocal free trade agreements independently with the U.S.

H.R. 1403 recognizes the importance of trading relationships to the Caribbean by explicitly ensuring that a level playing field exists between Mexican and Caribbean exporters with regard to the U.S. market. This would involve upgrading CBI to cover those products which are exempted from duty free treatment under CBI, and those goods and services placed at a disadvantage compared to Mexico and the provisions of NAFTA. For example, the textile and apparel sector is a key CBI export industry and is currently subject to many restrictions.

H.R. 1403 would create no special benefits for the CBI that would not already exist for Mexico. Nor would it legislate special treatment for CBI producers in excess of that granted Mexico. Nor would it go into effect in the absence of an agreement on NAFTA. In this sense H.R. 1403 embodies the spirit of a free trade agreement by guaranteeing that trade responds to free market forces rather than artificial government barriers.

H.R. 1403 establishes simultaneous and equivalent treatment for CBI countries and Mexico terms of tariff, rules of origin and quota elimination. Any delay in the establishment of this parity principle could result in uncertainty leading to trade and investment diversion from the Caribbean Basin. Even the uncertainty that would be engendered by a one year delay could do serious damage to the trade reliant economies of the Caribbean. We have already seen what the uncertainty created by the §936 debate has meant to investment in Puerto Rico and the Caribbean.

At the same time, H.R.1403 establishes parity as a traditional arrangements to enable the economies of the CBI region to complete their process of economic reforms and structural adjustments, which will put them in a position to move towards full reciprocity.

H.R. 1403 lays out the process through which long-term, permanent negotiaitons can be executed with the United States. This will serve as further encouragement to the Caribbean economics to implement economic reforms that will promote private sector growth and development and enable them to become more competitive in the global marketplace.

It also puts the CBI countries on notice that preferential trade arrangements--such as the CBI or the LOME Convention--will not exist indefinitely. The region must adapt to the gradual erosion or elimination of preferential trade regimes in favor of reciprocal trading systems. In order to cope with this profound change these economies must continue the process of adjustment and reform to ensure that in the not so distant future they will be able to compete effectively in quality and price in the global market place.

My colleagues, the Caribbean Basin Initiative has always been premised on our belief that "trade' not 'aid' is the most effective means of supporting and promoting development of the region. We can be pleased with the results of the last decade as we recognize that the CBI has contributed to jobs in the Caribbean and to jobs at home. Whether or not there is a NAFTA we must ensure the continuation of the Caribbean Basin Initiative.

Chairman GIBBONS. All right. Mr. Pickle, would you like to comment?

Chairman PICKLE. Well, I thank Mr. Rangel for his comments, but I want to be sure that he and the members know that you have been extremely cooperative and helpful on this. You have accompanied us on our trip in to the CBI area. I am advised that you have made a lot of other trips into the CBI area, separate and apart from my visitation. So you are a frequent visitor in that area.

And I assure you that we are trying to be of continuous help to the CBI area.

Now, Mr. Rangel, let me ask you this. I understand within the last day or two that the Black Caucus has indicated that they might oppose—or they indicated that they were going to oppose the NAFTA legislation, and apparently because they feel there is some lack of parity for the CBI region.

Mr. RANGEL. That is just not so, Mr. Pickle. I attended a 2-hour meeting yesterday, and the NAFTA legislation only took about 15 or 20 minutes, and I indicated that I thought that this treaty would improve the economy of both countries, that there would be some adjustments that would have to be made as it related to the labor force, and that in my opinion once again we are talking about the so-called trickle-down theory.

I think that my city and State would gain a tremendous advantage from NAFTA. But the unskilled workers, those that are seeking employment at this point, I think that they would, in the short term, be big losers as we see manufacturers seeking to find less expensive labor, and even more importantly as we see, as we do now, our companies willing to invest in training and education and technology in Mexico where we really do not see this kind of interest in the communities in which the members of the Congressional Black Caucus live and work.

As a matter of fact, when we tried to do something similar with the so-called enterprise or empowerment zones, which is merely an idea, the Senate dramatically reduced that.

So we do hope that as we move forward in encouraging trade with our neighbors on the south and, of course, job creation on their part and the transfer of jobs available for highly skilled workers, that you might think in terms of Americans and have them prepared for the great job opportunity that will lie ahead and not now.

Chairman PICKLE. Mr. Rangel, I was surprised that the Black Caucus might even consider opposing NAFTA because of the CBI legislation. This legislation was introduced specifically to try to reassure them that we want them to have parity.

Mr. RANGEL. I guess I did not make myself clear——

Chairman PICKLE. If that legislation, Mr. Rangel——

Mr. RANGEL [continuing]. That the CBI never came up as an issue, Mr. Pickle.

Chairman PICKLE. Well, I do not know that that is their position. We just heard it on the air.

Mr. RANGEL. I do want to make it abundantly clear that we appreciate whatever can be done to improve the situation as relates to the Caribbean if and when NAFTA becomes law. We have re-

served decision. We have not said we are against NAFTA; we have reserved decision on NAFTA. But certainly we——

Chairman PICKLE. Mr. Rangel——

Mr. RANGEL [continuing]. Are unanimous in supporting this legislation.

Chairman PICKLE [continuing]. If this legislation, 1403, were passed, do you think the Black Caucus would give their wholehearted support to NAFTA, then?

Mr. RANGEL. There is no connection between this legislation and the members of the Black Caucus and the passing of NAFTA. I am trying to explain to you that while we have not at this point decided—we cannot decide; we do not know what NAFTA in its final form will be—but the objection was really not to the agreement and certainly not because of concern about the Caribbean, but it really did concern the loss of jobs and the inability to find any programs that were designed to train people for the jobs that would be available.

Chairman PICKLE. Well, let me——

Mr. RANGEL. The issue is jobs, jobs, jobs.

Chairman PICKLE. Let me just conclude my remarks by simply saying that we have introduced this legislation with the sincere hope that would give the CBI area, confidence that we are going to give them parity with provisions that are granted under the NAFTA. We think it ought to be passed. That is our objective.

I would hope that other groups, any other group, would not try to condition their support for NAFTA on whether this legislation was passed or not, because that is our intent. And so I would hope that we would look at these things objectively and not try to interconnect to each other.

But I thank you, Mr. Rangel.

Mr. RANGEL. Mr. Chairman, I really did not understand the thrust of your question. Are you suggesting that members of Congress that represent districts in the United States of America should condition their votes because we are attempting to be fair to our friends in the Caribbean?

If so, I really fail to see the connection.

Chairman PICKLE. I am simply asking you that if we were to pass this legislation, would that remove whatever difficulty that the Caucus might have about the NAFTA program?

Mr. RANGEL. I am afraid somebody else is going to have to explain that, because I have tried several times to indicate that the problems that members of the Caucus have, it is not the relationship between NAFTA and the Caribbean. It is the relationship between NAFTA and the unemployed constituents they have in their own Congressional districts, and if there is some type of amendment or side agreement that is going to indicate that there will be new opportunities for jobs in the United States as a result of this agreement and that will help assist to prepare our citizens for those jobs, I can assure you, Mr. Pickle, that, far more than anything else, would influence members who represent poor districts with very, very historically high unemployment, especially those that have unemployment that is double the national average.

When you address that, then I can give you a great deal of assurance that you will find a lot of support, not only from the Black

Caucus, but perhaps from the rural areas that suffer the same type of unemployment.

Chairman GIBBONS. Mr. Pickle, I hear Mr. Rangel very clearly, and I am going to a meeting in a few minutes with the Majority Leader about that subject.

And so we are on the same wavelength, Mr. Rangel.

Mr. RANGEL. It is similar to the supercollider and jobs, things of that nature.

Chairman GIBBONS. Sure. I understand.

Let me see, Mr. Brewster is next on the list here, and then we will go to Mr. Houghton.

Mr. BREWSTER. Chairman Rangel, thanks for your testimony here.

Did I see or did I hear that we now have a trade surplus in the CBI countries for the seventh year in a row?

Mr. RANGEL. Yes. I think it is really exciting to see the jobs, really, that have been created on this side of the agreement, and I think that is why people should be encouraged that it might do the same thing with NAFTA.

Mr. BREWSTER. What percentage of their imports are from the United States? A fairly high percentage, I would take it?

Mr. RANGEL. A tremendously high percentage. It really surprises me during each of my visits how so many people in the Caribbean really think and buy American.

Mr. BREWSTER. I would take it, then, also that probably we are by far the largest market for their products as well.

Mr. RANGEL. No question about it.

Mr. BREWSTER. And you feel that depending on how NAFTA is finally crafted, that it can certainly damage that trade in both directions with the CBI countries?

Mr. RANGEL. Merely the suggestion of a North American Free Trade Agreement without the Gibbons amendment being discussed has already dampened the prospect of investors.

The introduction of the Gibbons amendment has made a tremendous difference, and certainly if and when the agreement is finally signed, it would allow the prosperity and trade to continue and flourish.

Mr. BREWSTER. Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Brewster, when we granted the Caribbean practically free access into the U.S. market, we expected that the trade deficit that we then had with the Caribbean would increase in size. And just the opposite occurred.

As we opened our market to their products, they bought more of our products, and we moved from a trade deficit with the Caribbean to a trade surplus. I would hope that would work in more trade areas as it certainly did there.

Mr. Houghton.

Mr. HOUGHTON. Thank you, Mr. Chairman. I only have one question.

Mr. Rangel, I assume you feel it is fair to Mexico for the United States to extend similar benefits to the CBI countries without requiring negotiations first?

Mr. RANGEL. I really do.

Chairman GIBBONS. Mr. Thomas? Yes, go ahead.

Mr. THOMAS. Thank you very much. I have got to go to a health care hearing.

Mr. Rangel, I feel it is somewhat fair to compare NAFTA to the Caribbean Basin for a couple of reasons. One, we keep hearing about the benefits to the United States and Mexico, if we can enter into a better trade agreement, and they keep emphasizing the current population of Mexico, about 80 million people.

One of the things that I am always amazed at is that if you ask people what is the population of the Caribbean Basin area, most of us think of them as relatively small countries, which I guess is the case, but when you add up 24 of them, the population begins to grow to about the 40 million level.

In addition to that, although Puerto Rico has a special relationship with the United States, the people of Puerto Rico live and hopefully carry out more and more commerce with their Caribbean neighbors, add another 3.5 million to that, and all of us hope that the plight of the people of Cuba will be resolved soon in a more unified structure with her neighbors in the Caribbean, which would add another 10 million.

So all of a sudden you are looking at 50 million people who can and are, as you indicated, and can be a continuing rewarding commerce area for both the United States and for the Caribbean area as well. So in that sense, I look at them in the same way.

In addition to that, as we were negotiating the North American Free Trade Agreement, there was the continuous discussion that on the whole the United States and Mexico will be better off.

A couple of areas would be damaged. One, row crops, vegetables, and cheap kitchen glass, flat glass, would be areas. But by and large, things would be better.

I am sure we are going to hear testimony in particular areas which may be damaged, but I think we have to keep in mind as well that both areas overall will be much better off if we could increase trade.

So my concern is that I do not want to pursue the question so much of if you would do this, would you do that, but underscore why do we not do both, because there are so many similarities between the two.

Do you have a reaction to that?

Mr. RANGEL. I do not have any problem with the way you present the question, except when we double the population, and probably the impact of the North American Free Trade Agreement will really have a dramatic impact on the different types of jobs that will be available in the United States and certainly in the city of New York, as we have moved swiftly toward a service-type of city where once before we enjoyed leadership in manufacturing.

My problem is really a short-term problem, and it is a short-term problem that is rather explosive as to what happens when you continue to defer a dream when you continue to defer the hopes of having employment.

I have found poverty not to be nearly as painful if you can see your way out of it, but I have never seen the hopelessness and despair where even going to jail is not a deterrent to those people who live in the streets.

Mr. HOUGHTON. It might even be preferable.

Mr. RANGEL. What?

Mr. HOUGHTON. It might even be preferable in some instances.

Mr. RANGEL. Exactly, exactly. So knowing our willingness to invest billions of dollars after the explosions in Los Angeles and Detroit and wherever they occur, it just seemed to me, after hearing the eloquent arguments as to why we should upgrade the work force in Russia and greet the returning military not with homelessness and joblessness but with hope for the future, to have trade, to have consumers, and to avoid turmoil, it just seemed to me that many communities in the United States just cannot take another jolt, waiting for the enlarged prosperity to ultimately reach them, if not in this generation, then the next.

It just seemed to me that what we are doing in Russia, that we should do in the United States and say: You do not have to wait 20 years for it to hit you; you had better hit the ground running and be ready for this. It is going to get worse if we do not have the treaty. They are going to go someplace else.

But my God, when the United States of America says more jobs, we do, in fact, mean you. And if my constituents say: When will it happen? In 5 to 10 years? I would like to be able to say that when you are trained and you understand what the heck is going on, the technology that is available and what you are going to have to do in order to work.

I cannot even bring home the hope. All I can tell them is that you are going to be hurt in the short run. And to be very honest, Mr. Thomas, you cannot hurt people that have no jobs, have no homes, and have no hope anymore.

Mr. THOMAS. Thank you very much.

Chairman PICKLE [presiding]. Mr. Payne, you wish to inquire?

Mr. PAYNE. Thank you very much, Mr. Chairman.

And, Chairman Rangel, I know you are scheduled to chair a subcommittee hearing that starts right now, so I do not have any questions. But I wanted to thank you very much for your testimony.

Mr. RANGEL. Thank you, Mr. Payne.

Chairman PICKLE. Does any other member have a question that they want to pose to Mr. Rangel?

[No response.]

Chairman PICKLE. If not, Mr. Rangel, we thank you very much for your testimony.

Mr. RANGEL. Thank you, Mr. Chairman.

Chairman PICKLE. The chair would inquire if Senator Graham of Florida is here at this point, or is Congressman Charles Rose from North Carolina here?

[Pause.]

Chairman GIBBONS. Is Congresswoman Snowe, Olympia Snowe, here at this time?

Ms. Snowe, we would be pleased to hear you. We were going to have you in a panel with Mr. Rose, but we just are delighted, maybe more so, to have you speak with us individually. So we would be pleased to recognize you at this time.

STATEMENT OF THE HONORABLE OLYMPIA J. SNOWE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MAINE

Ms. SNOWE. Thank you, Mr. Chairman. I want to thank you, Mr. Chairman and members of the committee, for giving me this opportunity to testify before the subcommittee today on H.R. 1403.

The issues that are being discussed before the subcommittee and with respect to this legislation are very important to my district. I would like to give you some background for my remarks, because I think it is important and it illustrates why I am going to raise the issue that I will today.

First of all, my district is very rural; it is very sparsely populated. Outside of the forest products industry, there is very little in the way of manufacturing activity.

My district is the largest district east of the Mississippi River, and the unemployment rate ranges from a low of 8.8—and I do not consider that low—in Penobscot County to a high of 15.2 in Washington County. Of the 10 counties in my district, all but 2 exceed 10 percent in the unemployment rate. And that gives you an idea why I am addressing what I am today.

I am here today, Mr. Chairman, to discuss the relationship between H.R. 1403, the Caribbean Basin Free Trade Agreements Act, and one of the few manufacturing industries left in Maine, and that is, of course, the footwear industry.

We have already lost in Maine 9,000 jobs since 1980 in the footwear industry. I am concerned that if H.R. 1403 is enacted, it is going to facilitate the continuation of that trend. It will reaffirm existing U.S. policy in the Caribbean Basin with respect to an already overburdened domestic footwear industry.

It also provides for a fast track authority for the President to negotiate agreements with Caribbean nations, and I have concerns about extending that fast track authority without being able to modify these trade agreements.

The purpose of H.R. 1403, as I understand it, is to avoid having the CBI affected adversely by the implementation of the North American Free Trade Agreement. But the NAFTA treaty applies only to goods not granted duty-free treatment under the CBI. It would extend duty-free treatment, of course, under CBI. That would continue and remain in place.

The Caribbean Basin Initiative originally exempted footwear from the list of goods receiving duty-free treatment when it was passed back in 1983, but regrettably the conferees to the Customs and Trade Act of 1990 substantially modified this exemption and removed duties on certain footwear imports to the United States from the Caribbean.

As you might guess, this has resulted in an enormous increase, a surge of imports in footwear from the Caribbean to the United States.

H.R. 1403, in and of itself, probably would not materially affect the trade relationship between the Caribbean and the United States. Obviously some of the free trade agreements that already exist have resulted in very liberalized treatment for Caribbean footwear not made with U.S. components.

My major concern here this morning is that the legislation is most significant not for how it would change existing footwear

trade policy, but for how it will cement the existing policy of section 222 of the Customs Act that I mentioned earlier, and put that firmly in place.

I frankly think, Mr. Chairman and members of the committee, that the passage of 1403 would effectively sound the death knell for legislation that I have introduced, which would put us back to the pre-1990 status quo, restoring duties on footwear coming from the Caribbean, or the legislation that has been introduced by Mr. Rose that would embody the compromise that was included in the Revenue Act, H.R. 11, that was vetoed by the President last year, and that essentially established quotas on certain duty-free imports.

Let me just tell you about the cause and effect between the changes in the Customs Act of 1990 that have led to the surge of imports of footwear into the United States.

Even before section 222 had been passed by Congress in 1990, the domestic market basically had about 17 percent of the leather footwear industry. All the rest, the 83 percent, represented foreign imports. These imports also controlled 76 percent of the rubber footwear market.

So the surge was already tremendous even before 1990, and then we had another surge of imports after 1990. In fact, I can tell you that one company in Maine, in early January of 1991 and February of 1991, terminated hundreds of people in their company because they were locating in the Caribbean.

Now the enactment of section 222 has really dealt a hard blow to the remaining workers in the domestic footwear industry. Footwear imports from the Caribbean since the passage of that legislation, for example, increased from 2.5 million pairs in 1990 to 6.6 million pairs in 1992. 38 footwear manufacturing plants in the United States have closed, three of which were in my district, and in areas with practically no employment alternative.

According to the Commerce Department, imports of fabric upper footwear with rubber or plastic soles from the Dominican Republic alone increased from 566,000 pairs in 1991 to 3 million pairs a year later, an increase of almost 421 percent.

Mr. Chairman and members of the committee, back in 1983 when the Caribbean Basin Initiative had been enacted, the authors recognized the impact of extending duty-free treatment to footwear coming from the Caribbean, and that is why in their report they said that our remaining shoe jobs should not be sacrificed by extending duty-free treatment to shoes made in the Caribbean.

And I believe that essentially we should return to that statement of intent and eliminate the duty-free treatment that has now been extended to the footwear coming from the Caribbean. It has essentially devastated our industry. As I said, we have lost over half of the industry since 1980, and we are seeing a tremendous increase since 1990.

And I can tell you, in looking over the list since 1991 after the enactment of section 222, that, in fact, there have been 11 different companies in the State of Maine, two in the last few weeks, that have laid off hundreds and obviously thousands of workers.

So clearly there is a cause and effect. I bring this to your attention here today with respect to 1403 because I would recommend that the committee formally address the footwear issue first, be-

cause it is a very pressing issue. We have one small niche in the market as far as footwear is concerned. We would like to be able to keep it. But it seems to me the liberalization of this policy with respect to footwear is going to add to the final blow to the industry.

So I would hope the committee would consider this request. I am concerned that H.R. 1403 will just accentuate and accelerate the problems that already exist with the footwear industry by validating the policy of section 222.

Thank you, Mr. Chairman.

[The prepared statement follows:]

TESTIMONY OF HON. OLYMPIA J. SNOWE
A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MAINE

Mr. Chairman, thank you for the opportunity to testify before the subcommittee today. The issues being discussed here this morning are very important to people in my district.

Mr. Chairman, my district is the largest in area east of the Mississippi River. As its size indicates, my district is very rural and very sparsely populated. Outside of forest products, there is little manufacturing activity in Maine's 2nd district, and what remains has been declining. Unemployment rates ranged from a low of 8.8% in Penobscot County in April 1993, to a high of 15.2% in Washington County. Of the 10 counties in the 2nd District, all but two had unemployment rates exceeding 10% this past April.

I come here today, Mr. Chairman, to discuss the relationship between H.R. 1403, the Caribbean Basin Free Trade Agreements Act, and one of the few manufacturing industries in Maine besides forest products -- the footwear industry. Maine's jobs in the nonrubber footwear industry alone have declined by more than 9000 since 1980, and the decline continues as we speak.

I am concerned that, if enacted, H.R. 1403 will facilitate the continuation of this trend. It will reaffirm existing U.S. policy in the Caribbean Basin which has hurt the already burdened domestic footwear industry. The bill will also provide the President with "fast-track" authority to negotiate free trade agreements with nations of the Caribbean Basin. I have long opposed extending fast-track authority to the Executive on the grounds that it removes all possibility of perfecting trade agreements which have wide-ranging impacts on many sectors of our economy.

The purpose of H.R. 1403 is to ensure that the Caribbean Basin Initiative is not adversely affected by the implementation of the North American Free Trade Agreement. It would, for a three-year period beginning on the date of implementation of NAFTA, apply the terms of NAFTA relating to Mexico to Caribbean countries. But the NAFTA treatment only applies to goods not granted duty-free treatment under the CBI. Duty-free treatment currently granted under the CBI would remain in place.

The Caribbean Basin Initiative originally exempted footwear from the list of goods extended duty-free treatment. But the conferees to the Customs and Trade Act of 1990 substantially modified this exemption and extended duty-free treatment to footwear imports composed of materials made in the U.S. Predictably, this change, embodied in Section 222 of the Customs and Trade Act, resulted in a huge increase in imports of footwear from Caribbean countries.

H.R. 1403 would probably not, in and of itself, result in a dramatic change in footwear trade between the U.S. and the Caribbean. Free-trade agreements between the U.S. and Caribbean nations might result in more liberalized treatment for Caribbean footwear not made with U.S. components, but the current arrangement is already very liberal. Since shoe manufacturers in the Caribbean can easily obtain U.S.-made components, Section 222 of the Customs and Trade Act of 1990 allows many classes of shoe imports to come into the U.S. duty-free. H.R. 1403 is most significant not for how it will change existing footwear trade policy, but for how it will cement the existing policy of Section 222 firmly in place.

Mr. Chairman, I believe that passage of H.R. 1403 will effectively sound the death knell for H.R. 2322, a bill that I recently introduced, and for H.R. 795, a bill introduced earlier this year by Mr. Rose. Both of our bills would reinstate the footwear exemption contained in the original Caribbean Basin Initiative. My bill would fully restore the pre-1990 status quo, whereas Mr. Rose's bill embodies the compromise that was contained in H.R. 11, the tax bill vetoed by President Bush at the end of the 102nd Congress.

Both bills implicitly recognize that Section 222 must be eliminated if the U.S. is going to maintain a viable, domestically-located shoe industry. Even before Section 222 was enacted, imports of nonrubber shoes accounted for 83% of the domestic market, and for 76% of the rubber footwear market. That is, even with full tariffs, imports controlled the great majority of the domestic market.

Enactment of Section 222 dealt a hard blow to the remaining domestic footwear manufacturers in business in 1990. Given the Third World wages of the Caribbean nations and their laxity of regulation, Section 222 has forced domestic shoe companies to seriously consider relocating to the Caribbean or to risk losing their market share to even more intense foreign competition.

As footwear imports from the Caribbean increased from 2.5 million pairs in 1990 to 6.6 million pairs in 1992, 38 footwear manufacturing plants in the U.S. closed their doors. Three of these were in my district -- in areas with practically no employment alternatives. According to the Commerce Department, imports of fabric upper footwear with rubber or plastic soles from the Dominican Republic alone increased from 566,000 pairs in 1991 to nearly 3 million pairs one year later -- a staggering increase of 421%.

Mr. Chairman, the authors of the original CBI rightly understood that providing duty-free treatment to shoes made in the Caribbean would hurt many Americans who work in small towns with few alternative job opportunities, especially in the manufacturing sector. For that reason, the 1983 House report for the CBI legislation stated that our remaining shoe jobs should not be sacrificed by extending duty-free treatment to shoes made in the Caribbean. I believe that we should return to the original intent of the CBI. H.R. 1403, on the other hand, would validate and confirm the existing arrangement which favors our Caribbean competitors.

For this reason, and because the bill contains additional fast-track authority for the President, I would have to oppose H.R. 1403. I would like to recommend that before marking up H.R. 1403, the subcommittee address the pressing issue of footwear trade with Caribbean countries.

Chairman GIBBONS [presiding]. Thank you, Ms. Snowe.

Let me say, I recognize your representation of the State of Maine here in the Congress and how fine a job you have done in presenting the interests from agriculture to footwear and all the other areas, too, in shipbuilding and everything else.

It looks like the Congress is sort of caught in a dilemma when it comes to footwear in Maine. First of all, as we understand it, our imports from the Caribbean of footwear amount to less than one-half of 1 percent of all the imported footwear that comes into the United States. And as we understand it, many of your constituents who oppose the importation of footwear from the Caribbean are actively engaged in importing the same types of footwear from other parts of the world. It seems to me that we are caught in a conflict between American producers who are importing from other parts of the world and American producers who would like to import from just the Caribbean.

Maybe that is not the case, and if you have got some testimony on that, we would like to hear it.

And at the same time, the committee has been getting letters in response to inquiries we made from some of your constituents in Maine, that they are very happy with section 222, that it allows them to sell—in fact, it almost requires the Caribbean to purchase from them the components that go into the assembly of shoes, and therefore they have been able to increase their employment in Maine.

So I realize you are in a dilemma; the committee is in a dilemma. We are just seeking to find out what is the best course of action. Perhaps you would like to respond to some of my observations.

Ms. SNOWE. Thank you. I would like to respond, Mr. Chairman.

First of all, I think that it would be inappropriate for this Congress to create incentives for attracting more imports into the United States.

Some of the companies in Maine—in fact, there are only two that I know of which benefit from the CBI because they have sites in the Caribbean—have moved to the Caribbean. They have had, unfortunately, no other choice since the passage of the 1990 legislation and even prior to it, because we were unable to address the entire issue of subsidies, our Government versus the other Governments, with whom we had been trading as far as shoes were concerned.

I have been involved in this issue since I came to Congress. I remember when foreign imports represented perhaps 48 to 50 percent of the market in the United States. That was back in 1980. In fact, it was in 1981 that the International Trade Commission had ruled unanimously that we should impose import quotas on imported footwear.

It's regrettable that the President did not accept that recommendation, and overturned the recommendation, a unanimous recommendation, of the International Trade Commission.

So, for those companies that benefit from making the components for those shoes, yes, there probably are some companies that do benefit from the CBI, and that is important employment in my State and other States. But it does not offset the consequences of

the thousands and thousands of jobs that have already been lost to this industry.

So what we have seen in this last decade—and there has been a direct relationship between what we have done here in Congress and what we have even failed to do—is that job losses have been accelerated by the passage of the section 222 in 1990. We are seeing it. There is no question about it.

And there are two companies that I mentioned, one of which has already laid off hundreds of people, and I am sure it is because they have a site in the Caribbean.

So we have created an incentive. So, yes, some companies may benefit. But the overall impact has been absolutely enormous. I do not think there are many in Maine who would dispute that and say that, yes, we have benefited from CBI because of the components. I doubt that that would be the case.

Chairman GIBBONS. Thank you, ma'am. Mr. Pickle.

Chairman PICKLE. Ms. Snowe, when we passed this CBI bill in 1990, it was my opinion that the Congress clearly intended to give duty-free treatment to goods, such as leather goods, made of American component parts and shipped in. I think that is what we intended. I personally think it is what we should have done.

Now that was the law. It became a very controversial question for the Congress, though, when this issue was raised in connection with H.R. 11.

We finally reached a compromise and said that if you were in business by October 1, 1992, that you would be exempt, and you could have duty-free treatment.

Now you would have us repeal that. Do you think that is fair to a company who has gone down there and set up a plant, to try to take advantage of CBI benefits, and now say we are going to repeal the law after they have gone down there and invested millions of dollars?

Ms. SNOWE. Well, Mr. Chairman, I guess I would have preferred that we did not create the incentive for them to go down there in the first place, if that is what we have done since 1990, which I think that we have.

I understand what the compromise was in H.R. 11, which is embodied in the legislation that has been introduced by Mr. Rose, which provides duty-free quotas on those companies that located in the Caribbean before October of 1992.

I would accept that position as opposed to nothing; I could tell you that. If you are not going to give a blanket exemption, I would hope that you would accept something in the form of change by the two initiatives that have been introduced here.

What is fair and is not fair at this point is hard for me to figure out because of what has already happened to the industry. And it is not even what the manufacturers wanted. It just ended up being the case, as I toured company after company in my district, and they are saying: Olympia, we do not think we are going to have any choice but to locate in the Caribbean. We cannot compete, given the low wages that are paid in other countries, given the subsidies that are granted to many of the countries with whom we end up competing as far as footwear is concerned.

And our Government never stood up for the footwear industry. I went before the International Trade Commission so many times I cannot count them. But it did not work, regrettably. Our Government ignored it. And you can see what happened—it is just what we thought would happen—over the 1980s. We have only got a little bit left of the market. It is just one little niche.

Can we keep it? I mean, that is all we are asking for. So please do not help to accelerate the loss and decline of this industry. We would like to keep what we have. It is a very valued manufacturing sector in the State of Maine. It requires highly skilled individuals, many of whom are hand sewing shoes. We would like to maintain that segment of the industry, and we do not want to lose it. And I am just concerned—very, very concerned—when I see the acceleration of imports since 1990.

So what I am saying to you, Mr. Chairman, is that I would be more than amenable if you were to accept Mr. Rose's legislation, if that were to be the case. I would rather have something as opposed to nothing.

Chairman GIBBONS. Are there any other members who have questions of Ms. Snowe?

[No response.]

Chairman GIBBONS. Well, thank you. We appreciate it.

Ms. SNOWE. Thank you, Mr. Chairman.

Chairman GIBBONS. Would you like to wait here while Charlie goes ahead?

Ms. SNOWE. I will.

Chairman GIBBONS. Charlie.

Mr. ROSE. Thank you, Mr. Chairman.

Chairman GIBBONS. Congressman Rose of North Carolina. We are glad to have you with us.

STATEMENT OF THE HONORABLE CHARLIE ROSE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. ROSE. Thank you, sir.

I am here today to express my concerns about the impact of H.R. 1403, the Caribbean Basin Free Trade Agreements Act, on the U.S. footwear industry, as well as on my constituents.

You may be aware that the largest domestic rubber footwear facility, Converse, Incorporated, resides in my Congressional district in Lumberton, N.C., in a county that is triracial: one-third black, one-third white, one-third Lumbee Indians. A very high unemployment area.

Converse is the biggest employer in that county, 1,527 people in Robeson County in the Lumberton plant, and Converse pays them an average hourly wage of $12 an hour, and that is a good wage for the men and women who live in this rural community.

Additionally, because of the demographics of Robeson County, over 90 percent of those employed by Converse are minorities.

Fifty percent of Converse shoes are exported, contributing significantly to our balance-of-trade payments. Converse manufactures their Chuck Taylor All-Star model at the Lumberton plant. They sell a total of 2.7 million shoes a year in Japan, including between 800,000 and 900,000 pairs of All-Stars. The Japanese are so im-

pressed with Converse that they recently sent a group of 29 businessmen to Lumberton to get a look at the American know-how that produces on of their country's top-selling shoes.

And Converse ranks fourth among athletic footwear manufacturers in the world in terms of market share and is the only U.S. company ranked in the top five with manufacturing in the United States.

Converse has expressed to me their interest in staying in Lumberton, their commitment to the community and to their employees. However, since the passage of section 222 of the Customs and Trade Act of 1990, Converse has found it difficult to compete against companies located in the Caribbean.

Section 222 allows products made in the Caribbean Basin countries with U.S. inputs to enter into the United States duty-free. I have introduced legislation, H.R. 795, currently pending before your Subcommittee on Trade, that will restore footwear to the list of products exempt from section 222, while also protecting the production levels of those companies who have located plants in the region.

H.R. 795 is identical to the compromise version of H.R. 1385 included in last year's Tax Bill, H.R. 11. And as we all know, despite all of our best efforts, President Bush vetoed H.R. 11. Regardless, I hope that Congress will have an opportunity to vote on H.R. 795 later this year.

The U.S. Government has previously recognized the import sensitivity of the footwear industry. NAFTA includes 55 percent local content requirements and a tariff phaseout of 15 years for footwear. These content standards are the highest of any product negotiated under the NAFTA except for automotive products.

Additionally, Congress originally exempted footwear products from the Caribbean Basin Initiative when it was enacted in 1983. In 1990, during debate of the Customs and Trade Act, Congress went on record in support of continuing to protect the domestic footwear industry from the benefits given imports from CBI nations. The Senate, in fact, clearly signaled this intent when it overwhelmingly defeated a floor amendment that would have reduced import duties on CBI imports by 50 percent. Unfortunately, this intent did not survive Congress Conference Committee action.

Other witnesses who come before you today will point out that the ITC's statistics show a staggering increase in production of footwear in the Dominican Republic of 421 percent in 1992. You will also hear of the closing of U.S. Shoe and Carter Footwear facilities in the United States over the past 2 years, the increased presence of these two companies in the Caribbean over that same time period.

Gentlemen and ladies, I implore you all to listen carefully to these witnesses and remember that behind the numbers and the stories you hear lies a significant human cost. The people of Lumberton and the people of Robeson County, North Carolina will be profoundly affected by further liberalization of free trade agreements with Caribbean Basin countries, just as they will if we fail to pass legislation exempting footwear from the duty-free provisions of CBI.

Thank you all for allowing me to come before you today.

Chairman GIBBONS. Mr. Rose, you have made that argument very effectively in the past, and I know you will continue it.

As I told Ms. Snowe, we are getting conflicting signals from people in the footwear industry. I do not know whether Converse manufactures in any other nation on Earth, do they, or are they just exclusively an American company?

Mr. ROSE. I am sure they do—and I am sure Converse has components that are produced in other places.

Chairman GIBBONS. Yes. It appears to me that we are caught in an argument between footwear people who import from one part of the world and do not want footwear imports from the Caribbean—I can understand that tension simply with anybody who has made an investment and is trying to preserve that investment.

We are also getting conflicting signals from the component manufacturers, who have done real well based upon section 222 of the Tariff Act, which says that the goods cannot come in from the Caribbean—shoes cannot come in from the Caribbean—unless they are 100 percent made-in-the-USA components. And so that is the dilemma we find ourselves in.

Mr. Pickle, would you like to inquire?

Chairman PICKLE. Well, I simply want to make this observation and see if I am corrected by anybody.

You would not like to see 222 repealed, but instead you would be at least agreeable if we renewed or kept in the law the agreement we made in H.R. 11——

Mr. ROSE. Yes.

Chairman PICKLE [continuing]. And at least you have got duty-free treatment only if you were in operation by October the 1st, 1992. Is that essentially what you are asking for?

Mr. ROSE. Yes.

Chairman PICKLE. All right. Thank you, Mr. Chairman.

Mr. HOUGHTON. Mr. Rose, I would like to ask you sort of a theoretical question. Obviously we are citizens in the United States first and trade negotiators and legislators second. Our responsibility is here. It must be; it always must be.

Yet the question really is: At what point do you open the borders? If you exempt footwear, you have got to exempt others. And I know grandfather clauses help to a certain extent. But how does this fit into your philosophy of free trade, because that train is going down the track reasonably fast?

Mr. ROSE. I obviously do not have the same philosophy of free trade that some members have on this committee or this subcommittee.

In certain manufacturing areas or in agricultural production areas, I find it very difficult to be able to explain to people who have to have a job and a living wage in my constituency, who are not college graduates, who have come through life with only some very basic skills, who probably are not retrainable in making fiber optics cable or whatever, that it is in their long-term best interests that the United States open its doors to 20 and 30 and 40 cent and dollar-an-hour wage workers in other countries that will put them out of a job and out of work.

I have been in agriculture for 21 years up here, and it is clear to me that this applies to business as well as agriculture. You are

either on the side of the workers, or you are on the side of the company, the presidents and the CEOs who keep an eye on only one thing, and that is the bottom line and how that bottom line goes up.

And I am sorry. I am on the side of the workers, and I am on the side of the people who work in the fields, and I just simply do not agree about this wide-open business.

Mr. HOUGHTON. If I could just counter that a moment, I do not think that the expression "bottom line" is a fair expression, because it usually connotes dollars or money or numbers, and——

Mr. ROSE. Well, that is the way it has been before.

Mr. HOUGHTON. Obviously it does not. In any situation, the bottom line is people, no question about it.

However, you flip to the other side, is that 95 percent of the people in this world live outside the United States. The greatest spurt of economic growth has been our exports outside of the United States.

So we think about the damage of imports coming in, but we do not think of the benefits of trying to open other people's doors, because our doors are open, to be able to create jobs through exports, and that is the thing that concerns me a great deal, because if we develop the siege mentality—and granted, we do not want to throw people out on the street, no question about that—the question is: How can we develop an economic atmosphere where we are not only protecting ourselves, yet at the same time signaling to other countries that we really want to trade openly with them to be able to create the jobs here on an export basis.

Mr. ROSE. Well, that is a good statement, Mr. Houghton. But my experience with the tobacco industry, for example, who—I will not talk about R.J. Reynolds; they have a rather large billion-dollar paper debt they have got to work through—but I know my experience with Phillip Morris, which is a company I greatly admire—I mean, they have got a parachute waiting up there on Park Avenue on top of one of those buildings for any CEO who does not help keep that line going up, and that line is not people. It is the price of the stock and the earnings of the stock.

Now maybe we should put into law that if we are going to let 49-cent-an-hour-wage-made products come into this country, that we will pay our corporate executives what they get in Mexico or what they get in the Caribbean Basin.

I mean, all this good talk about free trade, in my opinion, is in most instances a cover for American corporations wanting to get cheaper labor.

Now the Europeans do a much better job. I mean, the French have always taken better care of their farmers than we do. And so what have we done in this country? We have gotten our farmers very excited about the fact that, by God, they are keeping you from having a market over there for your grain. And so we have turned out wheat farmers into great free-traders, and that is wonderful, and I understand that, even with the big subsidy we pay the wheat farmers.

But I want us to have a level playing field, and I think our workers can compete on a level playing field. But when wage rates are so low where rubber footwear is being made, I just do not think it

is fair to ask 1,500 people in my constituency to find something else to do this late in life.

I am sorry. We have a basic philosophical disagreement.

Mr. HOUGHTON. Well, I do not think we have a disagreement at all. It is just in terms of how we create better jobs.

There are the in-jobs, which are affected by imports, and there are the out-jobs, which are affected by exports.

Maybe we should require, Mr. Chairman, that all the multi-million-dollar-a-year athletes wear Converse shoes. Do you think that would be a good idea?

Mr. ROSE. Well, they are the best. [Laughter.]

Mr. HOUGHTON. I am sure they are. [Laughter.]

Chairman GIBBONS. Other questions?

Mr. NEAL. Mr. Chairman?

Chairman GIBBONS. Mr. Neal.

Mr. NEAL. Thank you. Just an observation. I suspect the argument that has been raised here by Mr. Rose and Mr. Houghton, it largely is—the argument has become symbolic across the globe as we move into the next century.

But I have to lend my support in this argument to Mr. Rose. I represent a district that formerly was the manufacturing capital of the Northeast, and I have witnessed what a desire for cheap labor has created. And I do not want to go well beyond the boundaries of what has been stated here, but I want to say this, that I think it is the height of irony today that we have 50,000 troops in Japan, and they have 50,000 salesmen here in America.

It is a question of priority, and it is a question of focus, and I have been very critical of our trade policies and just came from a breakfast where we had a chance to discuss it. And you can make a number of observations, but there is one observation, I think, that stands out, and that is, Mr. Chairman, that much of the rest of this world does not take our trade policies seriously, and time and again, they think that we hold a press conference, and 6 months later we forget about it. And the evidence is overwhelming, and it is all around us. And the desire for cheap labor is going to curtail the quality of life in this country, if we do not begin to focus on that issue.

Mr. HOUGHTON. Would the gentleman yield?

Mr. NEAL. I would be happy to.

Mr. HOUGHTON. I do not really think it is fair to compare the Caribbean Initiative to the Japanese trade problem. The Japanese worker, in many cases, makes much more than the American worker, so it is not a question of cheap labor.

And also we have a very special problem there, because 65 percent of our trade deficit is with Japan. I do think it is just a little bit different than what we are talking about here.

Mr. NEAL. I understand the point that the gentleman makes. I think in a broader sense the point that I was trying to raise and that I think can be defended under careful analysis scrutiny, and that is that our trade policies in many instances have made us a patsy for the rest of the world.

Chairman GIBBONS. Mr. Herger.

Mr. HERGER. Thank you very much, Mr. Chairman.

We hear the philosophies coming out. We are hearing some very real examples of individuals who stand to perhaps lose their employment on the one side that we hear you stating, Mr. Rose, and also Ms. Snowe.

But there is also this other side of the equation. I represent a very heavy agricultural district in Northern California that is specialty crops that is very dependent upon our ability to be able to export.

I hear also on the other side here, which I think really somewhat goes together, the fact that we have not been tough enough in the past with our trading partners, certainly with the Japanese.

One of the more than 200 commodities that we grow in our area is rice, the fact that Japan, for example, there is not any of our rice—not any of our rice—going into Japan.

So what I feel is really the question here, whether it be the Caribbean or whether it be Mexico or Canada or the Japanese or the Europeans, really gets down to whether or not we have fair trade or be able to have access to their markets.

I believe the statistics show that over the last few years more than 75 percent of the increase in our gross national product has come through export, and we export more than Japan or any other Nation in the world. And so I would hope that whatever it is that we do at a time when we are working for access to other countries, that we not be reversing, making this problem even worse, but setting up barriers ourselves at the very same time that we are trying to bring down barriers abroad.

So I think we have to be very cautious on how we work at this. I think ultimately—I believe the statistics are very clear—we gain both in jobs and our economy far more than we lose by opening up markets and being able to trade abroad. It is certainly true in my district. I believe if we look, it is true on the whole, overwhelmingly true throughout the entire Nation, even though there are some areas, several areas that you represent where there is some loss, but the total gain is much greater, and I think what is important is that somehow we work to even this out in areas such as yours, Mr. Rose.

Mr. ROSE. Thank you, sir. I appreciate that. I know the gentleman knows that I support the rice subsidy for his rice farmers, and as chairman of the Forestry Subcommittee, I certainly understand the importance or exporting timber from his district. But I thank the gentleman for understanding my situation.

Chairman GIBBONS. Any other questions?

[No response.]

Chairman GIBBONS. Let us have Senator Graham come up next.

It is a pleasure to welcome you, Senator Graham. I know you have been sitting there patiently, and I know you have votes in the Senate. I must explain that I have a meeting with our leadership about some job matters, and I am going to have to turn this gavel over to Mr. Pickle, our cochairman here today.

So let me welcome you, and we are glad to hear from you, and I will read your statement.

STATEMENT OF THE HONORABLE BOB GRAHAM, A U.S. SENATOR FROM THE STATE OF FLORIDA

Senator GRAHAM. Thank you very much, Mr. Chairman. I appreciate this opportunity. I appreciate your indulgence in our schedule and also look forward to having this opportunity to appear before one of my favorite Americans, Congressman Pickle. Thank you very much, sir.

Mr. Chairman, members of the committee, I want to commend this committee and its chairman, Congressman Gibbons, for his enthusiastic efforts to protect the special trade relationship which we have nurtured for so many years with our neighbors in the Caribbean Basin.

Today it is my intention to introduce an almost identical bill to the legislation that you have before you today, in order to protect U.S. trade with the Caribbean Basin beneficiary countries against some of the potential adverse effects of the North American Free Trade Agreement on these Caribbean and Central American nations.

Mr. Chairman, I have been listening to the previous discussion. I do not feel it is necessary before this committee to discuss the specifics of the legislation—you are well aware of that—nor the specific policies that relate to the fundamental issue of whether the United States' economic policy is advanced or retarded by an expansion of trade, particularly within this hemisphere. That, to me, is the fundamental issue that will be debated as we consider the North American Free Trade Agreement.

But I would like to use my time this morning, with your permission, Mr. Chairman, to focus on the special issues that relate to the Caribbean countries and how they might be adversely affected by the North American Free Trade Agreement, if it is adopted without some special sensitivity to their conditions and needs.

By way of background, the United States has long cultivated a mutually profitable trade relationship with the Caribbean Basin countries. The benefits of this relationship are clear.

The United States enjoys a growing trade surplus with Caribbean and Central American countries. This surplus has grown from $340 million in 1986 to over $2 billion in 1992, an increase of 600 percent.

The United States' exports to the Caribbean Basin are expanding at three times the rate of overall worldwide exports. Exports have grown from $6.6 billion in 1986 to $11.8 billion in 1992.

These exports are currently supporting over 200,000 American jobs. Let me repeat that. These exports are currently supporting over 200,000 American jobs; 100,000 of these jobs have been created since 1986. Each one of these jobs is critically important at this time of slow economic growth, important to the communities in which these jobs are located.

The Department of Labor and the U.S. International Trade Commission have repeatedly concluded that the Caribbean Basin Initiative has had little, if any, adverse effect on U.S. industry and labor. Over 77 percent of Caribbean Basin textile and apparel exports to the United States are assembled in whole or part from U.S. components. This coproduction benefits American firms, American jobs.

The Caribbean Basin is now the tenth largest market for U.S. products. In comparison, for instance, it is ahead of both Italy and Singapore as a market for U.S. goods.

I support a general policy of free trade, yet I am concerned about the potential impact of the North American Free Trade Agreement if this parity bill is not approved. Should NAFTA be implemented, CBI beneficiary countries will face serious competitive disadvantages in a small but important number of goods, especially textiles and apparel. These CBI countries depend on the United States for a large share of their trade and outside investment in a concentrated number of goods, which makes them particularly vulnerable to changes in such trade policy, changes which potentially could wipe out our recent economic progress should trade and investment go elsewhere.

In particular, for several Caribbean Basin countries, such as the Dominican Republic, Costa Rica, Guatemala, Honduras, and Jamaica, the growth in the apparel export industry has been a central and critical element of those countries' export-led growth strategy.

Approximately 35 percent of the Caribbean Basin exports to the United States, mostly textile and apparel products, would be put at unintended disadvantage should NAFTA be implemented.

For example, Jamaican textile and apparel exports would not be able to compete fairly with similar Mexican goods after tariffs or import barriers on the Mexican exports are lowered and thus become cheaper.

Caribbean trade is cheaper than Caribbean aid. If we do nothing, I am concerned that NAFTA will divert trade, investment, productive facilities from the Caribbean Basin, potentially make it necessary to increase foreign aid to the region in order to bolster faltering economies.

Foreign aid to the Caribbean has been steadily decreasing. In 1985, the United States provided $1.9 billion of aid to the region. In 1992, that had dropped to $827 million, as trade with the Caribbean Basin has steadily increased and replaced former aid programs.

The Federal Government's commitment to American business, the driving force behind both the CBI and NAFTA, requires protecting our economic interest in Caribbean and Central American countries. It would be counterproductive to have provided incentives to American business to invest in the region and then allow a precipitous reversal of our policy to undercut those investments.

A slowdown of economic of liberalization and growth in the Caribbean Basin would have repercussions in America by damaging the U.S. textile and apparel industry, eliminating American jobs, squandering burgeoning market opportunities for American exports, and increasing needs for foreign assistance.

We should not lose our positive economic influence in this region and be forced to return to much higher levels of aid.

Mr. Chairman, especially in the last decade, the United States has supported and encouraged the movement by Caribbean and Central American nations toward democracy, macroeconomic discipline, and trade and investment liberalization. Trade with the Caribbean Basin has been an important successful element of this

policy. Any disruption of economic growth could prove especially troubling for some of the region's most fragile political systems, especially in Central America.

As an example, in Guatemala it was the business sector, threatened with the loss of international trade benefits, which played a crucial role in stopping President Serrano's illegal seizure of power.

Similarly, we can see the day when a democratic Haiti will have enormous economic rebuilding needs. A transitional period enhancing opportunities for outside investment and foreign trade will lessen Haiti's need for direct aid and encourage economic growth in that country.

Improving economic and political conditions of the Caribbean Basin will contribute to political stability, deter immigration, reduce trafficking in illegal drugs.

It is in the best interest of the United States for these countries to maintain healthy market economies and stable democracies.

Ultimately by linking continuation of benefits to eventual negotiations of bilateral free trade agreements, this legislation encourage beneficiary countries to liberalize trade and assume full obligations of the hemispheric trading system, further expanding and opening markets to American goods, services, and investment.

Here are two examples: One, Jamaica has clearly indicated a commitment to economic reform by accelerating trade liberalization, reducing tariffs, removing quantitative trade restrictions, and implementing programs of privatization. And two, Costa Rica has shown a similar interest in economic reform and trade liberalization by opening its economy to international competition through tariff reductions and removal of trade barriers.

Mr. Chairman, this bill is intended to benefit the United States by protecting a carefully cultivated trade relationship that has achieved only positive results for the United States. We should not allow our hard work and investment in this region to go to waste. Failing to protect our current beneficial trade relationships with the Caribbean Basin countries will undermine positive economic and democratic growth in these countries and eliminate well-established trade supporting our economy and supporting American jobs.

Thank you, Mr. Chairman.

Chairman PICKLE [presiding]. Senator, I thank you very much for your statement. It is refreshing, and it is wholesome, and it is positive, and I appreciate that you would give us leadership on the other side of the Capitol to advance this legislation. You have been a leader for quite a time in this field, and I certainly thank you.

I think at this point we have a vote coming up shortly.

Let me say, by way of review, Senator, because you were here and you heard the last two witnesses, and they have a problem in their districts, and we can understand why they would be voicing concern for their districts.

But I think it is well to remember this. We are not talking about a matter of just cheap labor or wage differentiation, as if the only reason we go into these other countries would be to get cheap labor. That is a factor, but that is the free enterprise system.

We started the CBI program because we wanted to do more trading with the areas to the south of us. It was not working out very well, and we went down and made a close visit and talked to these

people individually, found out what they really wanted and needed, and we passed it in the CBI legislation.

Now we did it because we wanted to trade with our neighbors to the south. We are not talking about trading with somebody millions of miles off; we are talking about our neighbors. They are not in our backyard—they are in our front yard. We must help them become diversified. It is not a matter of cheap labor. We want them to do more than just raise sugar. We have got to help them become diversified, and to do that, we have got to have trade with them.

We ought to have learned something by the problem we have had in El Salvador, and if we do not want another El Salvador, we had better try to learn: How do we live with our neighbors? Particularly how do we have trade?

Now we have established a program. We have found that we are not just giving them a favor. We have had a trade increase, and we have got a surplus. That, in itself, ought to speak loud enough to know that we have had success in this program.

Now we want to try to say that we want to continue that program. We want to be sure that the CBI countries get the same kind of treatment that NAFTA would get, and that is the objective of this whole program. We are not trying to give extra consideration to NAFTA or move it along. I want it to go forward, but if it does, we ought to have parity with CBI, and that is all we are trying to do. It is not cheap labor as much as it is, for trade, and it has been a success.

So I hope we keep in mind that we, the United States, ought to be dealing more and more with our neighbors to the south, rather than the Far East or some other part of the world. At least, they are our close neighbors, and we ought to try to do everything again to make it effective.

Now let me ask if anybody has any questions? We have a vote on. Mr. Houghton, do you want to raise a question?

Mr. HOUGHTON. I would like to ask a quick question, if I could, of the Senator. Thank you, Mr. Chairman.

You were here for the discussion with Congressman Rose, and he was talking about restoring footwear to the list of products exempt from section 222.

How do you feel about that?

Senator GRAHAM. Well, Mr. Congressman, as I indicted in my opening remarks, NAFTA is the agreement which will open additional entry for Mexican shoe, apparel, textile products in the United States. This legislation states that if the United States determines that that is in our interest to do so, that we should complement that policy with a 3-year period in which our Caribbean Basin neighbors are given parity treatment to that which we have decided to extend to Mexico and to Canada, and that within that 3-year period, it is intended that there be negotiated a permanent free trade relationship between the United States, the United States and other NAFTA signatories, and countries within the Caribbean Basin.

So I think the issue of whether it is in the U.S. interest to expand trade in areas of shoes, textile, apparel or any other products is going to be the focus of the NAFTA debate.

This bill goes to a collateral question, and that is: What would be the implications of making that decision for Mexico and not taking into account the impact that that decision will have on our traditional trading partners in Central America and the Caribbean.

Chairman PICKLE. Mr. Herger, do you have any questions?

Mr. HERGER. No.

Chairman PICKLE. Well, Senator, I thank you very much for your testimony. I know you speak not just for Florida, but for the United States, and your testimony has been very helpful to us. So we thank you.

Senator GRAHAM. Thank you very much, Mr. Chairman.

Chairman PICKLE. Now the chair is going to ask—we are going to call for a recess for approximately 15 minutes or less, and we will be back as soon as we can.

And then the next panel can be getting in place, Panel No. 2, I guess.

[Recess.]

Chairman PICKLE. The chair will ask the subcommittee to come to order, and I ask our guests to please take their seats promptly.

Our next panel consists of the following individuals, and if you would come forward as we call your name: Honorable Gonzalo Facio, Ambassador to the United States from Costa Rica.

Ambassador Facio?

Ambassador FACIO. Here I am.

Chairman PICKLE. The Honorable Richard Bernal, Ambassador to the United States from Jamaica; representing the Government of the Dominican Republic, the Honorable Jose del Carmen Ariza; representing the Government of the Republic of Trinidad and Tobago, the Honorable Corinne McKnight, Ambassador to the United States; and representing the Government of Guatemala, Eduardo Sperisen, Vice Minister of Economy, and that individual will be speaking for the Central American Vice Ministers of Economy.

We are very pleased to have each of you. Have all of our guests taken their places?

All right. We are pleased to have each one of you gentlemen, if you will proceed—and ladies—if you will proceed, we will be pleased to have your testimony. And then after you have each finished, we will open it to the committee for any questions.

So we will first recognize Ambassador Facio. Mr. Ambassador.

STATEMENT OF HIS EXCELLENCY GONZALO J. FACIO, AMBASSADOR TO THE UNITED STATES FROM THE GOVERNMENT OF COSTA RICA

Ambassador FACIO. Thank you, Mr. Chairman.

I am pleased and honored to appear before these subcommittees. I have come to convey the full support of the Government of Costa Rica to the Caribbean Basin Free Trade Agreement Act, H.R. 1403.

I was very pleased to hear the statement that was just made by the very able Senator from Florida, Bob Graham, who with characteristic eloquence backed the proposal, H.R. 1403, and announced that he is filing today a similar draft law before the Senate.

The countries of the Caribbean Basin have accelerated the development and fortified the democracies since the CBI was launched about 10 years ago. With the help of CBI incentives, Costa Rica has

been able to diversify not only its production of goods and services, but also its export markets from a monoculture type economy, heavily dependent on coffee and other traditional commodities. Costa Rica now exports a wide array of nontraditional products such as pineapples, melons, apparel, seafood, flowers, ornamental plants, electronic components and the like, which constitute more than 50 percent of its total exports.

Under the CBI auspices, American and other foreign investors have settled in Costa Rica, bringing technology, capital, and financial resources which have had a positive impact on employment and exports.

At the same time, Costa Rica has spent approximately 60 cents of every dollar earned in foreign trade in imports from the United States, such as machinery and equipment, raw materials, fertilizers, and other industrial products. Our imports and those of the other CBI countries have meant more jobs for Americans within the U.S. territory.

For instance, the U.S. Commerce Department estimates that each $1 billion of U.S. exports creates some 20,000 jobs in this country. Thus the $11.4 billion in exports from the United States to the Caribbean Basin during the last year has certainly contributed to create 230,000 American jobs in 1992.

But the CBI has meant a lot more for the United States than what has been publicly recognized. I may point that, first, U.S. exports have maintained a larger and more consistent job-creating bilateral trade surplus with the CBI countries than with any other region in the world.

Second, U.S. exports to the region are expanding at three times the rate of exports of the rest of the world as a whole.

Third, the CBI region, despite its small size and population, is now the tenth largest market for U.S. products, ahead of Italy and Singapore.

We in Latin America support NAFTA as a matter of general policy. But NAFTA is only one of the free trade agreements that must be negotiated by the United States and the Western Hemisphere neighbors. NAFTA is definitely important for Mexico now, of course, and for Latin America in the longer term. NAFTA is the gateway for the free trade agreements we should have in the whole Western Hemisphere.

But it should not be an instrument that discriminates against the small and economically weak nations of the Caribbean. We do not want to risk seeing potential foreign investment, and even those investors already present in the region, migrate from the CBI nations in search of better conditions in other friendly countries of the same neighborhood.

This is why H.R. 1403 is so important. It assures a transitional period for CBI beneficiary countries to prepare themselves for a free trade agreement with the United States or for acceding to NAFTA.

We did not choose for the United States to do NAFTA first. We would have been happier if a free trade agreement would have taken place with the CBI countries first. But since things did not develop our way, we can only express our concern that by not giving us the period of transition offered now by H.R. 1403, the Unit-

ed States would be undoing with one hand what it has done to the region with the other hand.

This is the reason why we strongly support H.R. 1403, as it gives to our nations a chance to remain competitive after so many years of learning and hard work.

Costa Rica strongly supports the Caribbean Basin Free Trade Agreement Act, but endorses specifically the following proposals in the bill:

(A). Extension of NAFTA priority for articles currently excluded from CBI treatment. Textiles and apparel are a case in point. Our exports to the United States are negligible in terms of all textiles and apparel that enter your country, but certainly are very important in terms of our own economy.

(B). We give special support to the sugar provision requiring the President to monitor the effects of NAFTA on CBI access to the American sugar market. Without using this provision wisely, NAFTA would seriously threaten the integrity of the guaranteed minimum quota of 1.25 million tons established in the 1990 Farm Bill for traditional offshore suppliers. We also think that a similar provision should be made regarding ethanol from CBI.

NAFTA parity for CBI countries will also benefit the U.S. industries and the U.S. workers because, first, most products from these countries already enter the United States duty-free under the CBI and have had no adverse effect on U.S. jobs and industry. Second, the U.S. textile and apparel industry and workers will benefit, since over 77 percent of CBI textile and apparel exports to this country are assembled from U.S. components. Third, the legislation will further encourage beneficiary countries to assume full obligations of the global trading system, opening markets for U.S. products, services, and investment. Fourth, NAFTA parity will improve the environment and workers' rights standards in the CBI nations. Fifth, improving economic conditions contribute to political and social stability in the countries of the region; thus discouraging immigration and unwanted or unlawful economic activities.

Mr. Chairman, the arguments that I have tried to summarize here with would move my Government to respectfully urge these distinguished subcommittees to act favorably upon H.R. 1403. Only through this wise piece of legislation will we be able to keep CBI safe and sound.

Thank you very much.

[The prepared statement follows:]

TESTIMONY OF GONZALO J. FACIO
AMBASSADOR OF COSTA RICA

Mr. Chairman:

I am pleased and honored to appear before these Subcommittees.

I come to convey the full support of the Government of Costa Rica to the "Caribbean Basin Free Trade Agreement Act" -- H.R.-1403 -- and to express the gratitude of my Government to Congressman Sam Gibbons, Chairman of the Subcommittee on Trade, and to Chairman J.J. Pickle of the Oversight Subcommittee and Representatives Crane and Rangel, for writing and submitting to Congress this very important piece of legislation.

The countries of the Caribbean Basin have accelerated their development and fortified their democracies since the CBI was launched more than 10 years ago. Although the program was publicized as a unilateral concession of the United States, the countries of the region had to undertake serious economic and trade reforms as a prerequisite to be designated as beneficiaries of the CBI.

BENEFICIAL EFFECT OF CBI TO COSTA RICA

With the help of the CBI incentives, Costa Rica has been able to diversify not only its production of goods and services, but also its export markets. From a monoculture type economy, heavily dependent on coffee and other traditional commodities, Costa Rica now exports a wide array of non traditional products, such as pineapples, melons, apparel, seafood, flowers, ornamental plants, electronic components and the like, which constitute more than 50 per cent of its total exports.

Under the CBI auspices, American and other foreign investors have settled in Costa Rica, bringing technology, capital and financial resources, which have had a positive impact on employment and exports. At the same time, Costa Rica has spent approximately 60 cents of every dollar earned in foreign trade in imports from the United States such as machinery and equipment, raw materials, fertilizers and other industrial products. Our imports and those of the other CBI countries, have meant more jobs for Americans within the U.S. territory.

Under the present Administration of President Rafael Angel Calderón, and encouraged by the CBI and by the Enterprise for the Americas Initiative (EAI), Costa Rica has made a long term commitment to the basic principles that inspire free markets today.

Given that the levels of international economic and financial cooperation are on the decline, the expansion of trade is of the utmost importance for developing nations such as Costa Rica. Trade must be interpreted as two way street where nations can gain from it, and definitely not as the zero game that many protectionist and interest groups erroneously try to represent.

EXPORTS TO THE CBI NATIONS INCREASE JOBS IN USA

For instance, the US Commerce Department estimates that each $ 1 billion of US exports creates some 20,000 jobs in this country. Thus, the $ 11.4 billion in exports from the US to the CBI region during last year, has surely contributed to create 230,000 American jobs in 1992.

But the CBI has meant a lot more for the U.S. than has been publicly recognized. I may point that:

1.- US exports have maintained a larger and more consistent job-creating bilateral trade surplus with the CBI countries than with any other region in the World.

2.- US exports to the region are expanding at a rate 3 times the rate of exports to the rest of the World as a whole; and

3.- The CBI region, despite its small size and population, is now the tenth largest market for US products, ahead of Italy and Singapore.

OUR SUPPORT FOR NAFTA

We in Latin America support NAFTA as a matter of general policy. But NAFTA is only one of the Free Trade Agreements that must be negotiated by the US and its Western Hemisphere neighbors. NAFTA is definitely important for Mexico now, and for Latin America in the longer term. It is the gateway for the Free Trade Agreements we should have in the whole Western Hemisphere. But it should not be an instrument that discriminates against the small and economically weak nations of the Caribbean. We do not want to risk seeing potential foreign investment, and even those investors already present in the region, migrate from the CBI nations in search of better conditions in other friendly countries of the same neighborhood.

This is why HR 1403 is so important. It assures a transitional period for CBI beneficiary countries to prepare themselves for a Free Trade Agreement with the US, or for acceding to the NAFTA.

We did not choose for the US to do NAFTA first. We would have been happier if a Free Trade Agreement would have taken place with the CBI countries first. But since things did not develop our way, we can only express our concern that, by not giving us the period of transition offered by HR-1403, the US would be undoing with one hand what it did to the region, with the other hand. This is the reason why we strongly support HR-1403, as it gives to our nations a chance to remain competitive after so many years of learning and hard work accompanied by strong political commitments to the modernization of our economies, and the liberalization of the region's markets and investment regimes.

EXTENDING CBI PREFERENCES TO TEXTILES AND APPAREL

Costa Rica strongly supports the Caribbean Basin Free Trade Agreements Act -- HR-1403 -- but endorses specifically the following proposals in the bill:

Extension of NAFTA priority for articles currently excluded from CBI treatment. Textiles and apparel are a case in point. Our exports to the US are negligible in terms of all textiles and apparel that enter your country, but certainly very important in terms of our own economy.

THE SUGAR PROVISION OF HR-1403

We give special support to the sugar provision requiring the President to monitor the effects of NAFTA on CBI access to the American sugar market. Without using this provision wisely, NAFTA would seriously threaten the integrity of the guaranteed minimum quota of 1.25 million tons established in the 1990 Farm Act for traditional off-shore suppliers. We also think that a similar provision should be made regarding ethanol from the CBI.

Costa Rica gives special support to the possibility of entering into comprehensive free trade agreement with the US and the granting of fast track authority to the Executive branch for such purposes.

HR-1403 ALSO BENEFITS THE U.S.A.

NAFTA parity for CBI countries will also benefit the US industries and the US workers, because:

1.- Most products from these countries already enter the US duty-free under the CBI, and have had no adverse effect on US jobs or industry.

2.- The US textile and apparel industry and workers will benefit, since over 77% of CBI textile and apparel exports to this country are assembled from US components;

3.- The legislation will further encourage beneficiary countries to assume full obligations of the global

trading system, opening markets for U.S. products, services and investments;

4.- NAFTA parity will improve the environment and workers rights standards in the CBI nations;

5.- Improving economic conditions contribute to political and social stability in the countries of the region, thus discouraging migration and unwanted or unlawful economic activities.

Mr. Chairman:

The arguments that I have tried to summarize herewith, move my Government to respectfully urge these distinguished Subcommittees to act favorably upon HR-1403. Only through this wise piece of legislation will we be able to keep CBI safe and sound, while the countries of the region have a chance to catch up with NAFTA in the same time frame and, hence, avoid investment and trade disruptions that, at this point in time, could only be harmful to our relations in the Hemisphere.

Chairman PICKLE. Thank you very much, Ambassador. We appreciate your fine statement.

Now we will hear from the Honorable Richard Bernal, Ambassador to the United States from Jamaica.

Ambassador Bernal.

STATEMENT OF HIS EXCELLENCY RICHARD L. BERNAL, AMBASSADOR TO THE UNITED STATES FROM THE GOVERNMENT OF JAMAICA

Ambassador BERNAL. Thank you, Mr. Chairman. First of all, let me thank you for the opportunity to appear at the hearings on H.R. 1403 before the Subcommittee on Trade of the U.S. House Ways and Means Committee.

I have provided a written statement which I request be included in the official record, and I will briefly summarize that statement.

Chairman PICKLE. That would be permitted, and your entire statement will appear in the record.

Ambassador BERNAL. Thank you.

Mr. Chairman, yourself and your colleagues, particularly Congressman Gibbons and Congressman Rangel, many years ago, in fact 10 years ago, had the foresight to create the Caribbean Basin Initiative. We think that was this was a vital step in building prosperity within the region. We think that your foresight has been vindicated, because in the last decade, U.S. exports to the region have increased by over 100 percent, which is three times faster than in any other region of the world. Meanwhile, Caribbean exports to the United States have increased by over 50 percent.

In 1992, the United States posted yet another year of trade surplus with the CBI region, in fact the seventh year in a row in which the United States has exported more to the Caribbean than it has imported.

The CBI region now comprises the tenth largest market for the United States, and in the case of the United States, it is the largest market for CBI countries. The combined trade, Mr. Chairman, exceeds $20 billion, including $11 billion of U.S. exports. This trade supports 220,000 jobs in the United States and countless jobs throughout the CBI region.

Mr. Chairman, this trade is not only important for the growth it has provided and the investments and exports, but it has been a major source of jobs in the United States and in the CBI region. Each dollar of earnings from exports by Caribbean countries represents 60 cents of purchases of U.S. exports. This compares with only 10 cents spent out of each dollar earned by Asia.

Secondly, Mr. Chairman, there has developed between the United States and the CBI a complementarity in production in which U.S. machinery and technology and capital has combined with Caribbean labor and management to create products which are globally competitive and ensure the survival of U.S. jobs and businesses.

So, in fact, the CBI has been a major source of job creation for the United States.

Mr. Chairman, Jamaica has long supported free trade both at the hemispheric level and at the multilateral level through GATT. We

support and endorse the NAFTA as a first building-block of hemispheric free trade.

However, we are concerned that the NAFTA could inadvertently erode CBI provisions and thereby place the small and diversified economies of the CBI countries at a severe competitive disadvantage.

I should remind the committee that Mexico already enjoys the advantages of inexpensive labor, energy, lower transportation costs, and economies of scale. To add to that a further advantage would certainly make it almost uncompetitive for CBI exports to enter the United States.

Mr. Chairman, there are a number of potential adverse implications. First, there is the possibility of reduced exports from the CBI to the United States. Secondly, there is the diversion of investment which could take place as investors look toward Mexico. This has already been documented in the U.S. International Trade Commission study on the potential effects of the NAFTA on the apparel industry in CBI countries. Thirdly, there could be a relocation of productive activity moving from CBI countries into Mexican locations. Four, there could be a contraction of exports, investment, and economic activity. Five, there could be the loss of jobs both in the United States and the Caribbean. And six, any contraction or diversion of Caribbean trade from the United States would result in a reduction of the U.S. trade surplus with the CBI and aggravate CBI country balance of payments problems.

Mr. Chairman, the Government of Jamaica endorses and fully supports the H.R. 1403 bill. We do this because of the following reasons:

First, it creates a level playing field in hemispheric trade. H.R. 1403 recognizes the importance of a level playing field for all participants of trade in the hemisphere. In a word, sir, it provides no special privileges to the CBI; it merely provides nondiscriminatory access for Caribbean products entering the U.S. market.

Secondly, it provides parity as a transitional arrangement. In this 3-year period, it establishes simultaneous and equivalent treatment for CBI products entering the U.S. market vis-a-vis Mexico. H.R. 1403 establishes parity as a transitional arrangement. This transitional arrangement will enable the economies of the CBI region to complete the process of reform, liberalization, and adjustment which is already well-advanced. It is completing this process which will put the Caribbean countries in a position to move toward full reciprocity.

Thirdly, the 3-year negotiating period provides the possibility for joining NAFTA or for negotiating a free trade agreement with the United States. We think that the 3 years is a period which would be very useful; however, we are concerned that the 3-year period not terminate prematurely ongoing negotiations which look as if they will come to fruition.

We therefore suggest that one solution would be to include a provision allowing the administration, after appropriate consultation with Congress, to extend the 3-year deadline in the cases where negotiations are in progress, and there is a reasonable expectation of concluding an agreement.

Fourth, H.R. 1403 lays out a process through which negotiations for long-term free trade agreements can be executed.

Fifth, it provides for phased reciprocity over an appropriate adjustment period. Having utilized the 3-year period, the CBI countries would be in a position to begin to phase in reciprocity over a suitable adjustment period.

Mr. Chairman, a suitable adjustment period should take account of the peculiarities of small size and the undiversified structure of the Caribbean economies.

Jamaica supports this bill because we have moved aggressively and comprehensively to put in place the necessary economic preconditions for free trade. We are committed to free trade at the hemispheric and multilateral level, and we have reduced our tariffs since 1989 from 50 percent to less than 20 percent. In fact, 60 percent of all imports enter at 10 percent or less.

Second, Mr. Chairman, we have provided improved market access for the United States. There are no nontariff barriers and no cases of restrictions against U.S. goods.

Thirdly, Mr. Chairman, we have, in fact, provided substantial reciprocity in response to the provisions of the CBI by providing improved market access to the United States. Jamaica has already gone a long way in providing reciprocity.

We think that this bill will continue to support the economic reform programs in Jamaica, and we intend to complement this by strengthening measures on the environment, worker rights, and on intellectual property rights.

In conclusion, Mr. Chairman, we in the Caribbean and Jamaica in particular welcome the introduction of H.R. 1403. The bill will ensure that the NAFTA does not undermine or reduce the benefits we mutually derive from the CBI. We think that H.R. 1403 is a logical and consistent extension of the CBI Initiative, and we feel that it is consistent with the policy of free trade advocated by the United States.

The CBI and H.R. 1403 are premised on the recognition of U.S. interest in supporting development in the Caribbean Basin through trade and not aid. Jamaica welcomes this approach, because we do not intend to continue indefinitely as recipients of aid. We would like to move toward private-sector-led, market-driven growth dependent upon private capital flows.

We think that trade, as Senator Graham said earlier today, is a much more effective way of supporting the Caribbean than providing aid.

Mr. Chairman, the United States cannot be an oasis of well-being in the midst of underdevelopment and poverty. Therefore, the continued expansion of trade is crucial to the economic viability of the United States and the CBI countries. Economic growth helps the CBI countries to alleviate the poverty which spawns crime, narcotics trafficking, and illegal immigration.

As the United States forges a new economic partnership with its Caribbean neighbors, it is vital that we do not lose sight of these facts.

Trade liberalization, including NAFTA and represented by the CBI and H.R. 1403, represents both a challenge and an opportunity for the countries of the Caribbean, an opportunity which we must

seize. H.R. 1403 provides us the opportunity to meet that challenge, Mr. Chairman, and to ensure the continued success of Caribbean/U.S. trade and its positive impact on exports, investment, and job creation, which has laid the basis for our mutual prosperity.

The Jamaica Government endorses and supports H.R. 1403.

Thank you, Mr. Chairman.

[The prepared statement follows:]

THE CARIBBEAN BASIN FREE TRADE AGREEMENTS ACT (H.R. 1403)

Statement by Dr. Richard L. Bernal
Ambassador of Jamaica to the United States of America

At the Hearing before the U.S. House Ways and Means Committee
Subcommittee on Trade

Honorable Sam Gibbons, Chairman

June 24, 1993

I. THE CARIBBEAN BASIN INITIATIVE AFTER TEN YEARS

Mr. Chairman, ten years ago, you and your colleagues on the Committee on Ways and Means proposed legislation that led to the passage of the Caribbean Basin Initiative (CBI). This legislation in 1983 recognized the considerable benefit to be derived by both the United States and the Caribbean from the liberalization of our trading relationship. It was motivated and designed to stimulate economic reform and trade led to economic growth in the same manner as the currently proposed North American Free Trade Agreement (NAFTA).

Mr. Chairman, I wish to commend you and the Committee for this effort because the CBI has been responsible for a decade of unparalleled growth in trade between the United States and the Caribbean, acting as a catalyst for exports, investment and employment creation in the economies of the United States and the Caribbean nations, such as Jamaica.

In just 10 years, we have seen U.S. exports to the region surge by 100 percent and Caribbean exports to the United States climb by close to 50 percent. In 1992, the United States posted yet another trade surplus with the Caribbean Basin -- for the seventh year in a row. The Caribbean Basin now comprises the tenth largest market of the United States; for the Caribbean, the United States is by far the largest market. Combined trade (accounting for both imports and exports) between the United States and the Caribbean exceeded $20 billion in 1992, supporting 220,000 jobs in the United States and countless jobs throughout the Caribbean region.

As the growth process in CBI economies has been strengthened by increased U.S. investment and market access, their import capacities have increased, resulting in increased purchases of U.S. goods and services. Each dollar spent by the Caribbean generates 60 cents worth of U.S. exports, while that same dollar in Asia would only generate 10 cents per dollar of U.S. exports. Jamaica for example, now purchases three quarters of its imports from the United States, as increased overall demand has inevitably led to the creation of exports, and more importantly, export-related jobs, in the United States.

In addition, the jobs created in Jamaica have often been in industries such as apparel manufacture, where U.S. employers can no longer offer globally competitive products if all stages are carried out in the U.S. The CBI has given these U.S. firms the ability to rely for part of their production on the internationally competitive wage rates in the Caribbean, rather than losing their entire operations to low wage competitors in Asia. As a result, U.S. apparel manufacturers have been able to improve their costs of production and retain the global competitiveness of U.S. manufactured apparel exported throughout the world marketplace.

Finally, the access to the U.S. market provided by the CBI has encouraged economic reform and liberalization of economic policies in the region, particularly in Jamaica. Just as the promise of NAFTA has stimulated economic reform in Canada, Mexico, and

throughout the region, we in Jamaica have had the incentive of the market access provided by the CBI to embrace the policies of privatization and economic deregulation that promote export driven, private sector-led development and growth.

In this regard, Jamaica believes that the CBI has served as a first, and vital, step in the path leading to expanded trade, investment and growth with the United States. The CBI supports economic reform to create genuine market economies and has laid the groundwork for mutual prosperity through sustained growth and stronger commercial links. If economic expansion is to continue, especially as the NAFTA negotiations are brought to a close, it is necessary that a mechanism be established, which will enable U.S. and Caribbean firms to enhance their current trade partnership. We believe that H.R. 1403 -- the Caribbean Basin Free Trade Agreement -- will provide such a trade mechanism.

II. THE IMPLICATIONS OF NAFTA FOR THE CBI REGION

A. The Current Structure of Trade Between the CBI Countries and the United States

In the new global marketplace to which all countries, developed and developing are adjusting, and to which the NAFTA responds, no product is made entirely in one country, because the production process is spread over several countries. The various aspects of the industrial production process are distributed logically throughout the hemisphere. Different stages are carried out in those areas of the hemisphere where they are most cost effective. The spread of the production process through different countries is the most efficient mode of production and beneficial to all the countries involved.

Such a framework of complementary production has become especially characteristic of the trading relationships between the Caribbean Basin and the United States. In many industries, U.S. producers now undertake some production in the CBI countries using U.S. machinery and inputs and Caribbean labor to produce a final product which is internationally competitive. Without this complementarity of production between the United States and CBI countries, U.S. firms and Caribbean producers would not be able to maintain their market share or their competitiveness in the global market place. Not only does this preserve U.S. jobs in the relatively more competitive sectors of an industry, but it establishes a market for U.S.-made equipment and technology.

One of the best and most visible examples of this is the apparel industry. The production of apparel in the CBI region is complementary to production in the United States. For each garment produced in Jamaica, 80 percent of the finished good consists of U.S. textiles, machinery and other inputs, most of which is imported from U.S.-based American firms. U.S. garment producers, therefore, maintain competitiveness in the global market place by having different stages of the production process dispersed within the hemisphere, involving CBI producers. In the future, as globalization progresses, it is not going to be possible for any single product, firm or country, to stay competitive unless the production process is dispersed throughout the region so that each aspect is undertaken where it is most cost effective.

B. NAFTA's Effects on the CBI/U.S. Trade

The structure of trade in the region, ensures that the impact of NAFTA will be substantial. Fifty to seventy percent of exports of CBI countries go to the three NAFTA countries. With such a significant proportion of the region's trade taking place with the United States, and given the importance of trade to economic growth, there is concern that NAFTA could result in trade diversion and not in trade creation.

The NAFTA could convert the CBI into a depreciated asset. It would erode CBI provisions and thereby place the small, undiversified economies of CBI countries at a competitive disadvantage in terms of access to the US markets as it provides Mexico with removal of tariffs and quotas over specified adjustment periods. This would inadvertently create a situation in which Mexico, which already has inexpensive labor, cheap energy, lower transportation cost and economies of scale, would now have a further advantage over the CBI countries. Although Mexico does not compete with the CBI region in all of its exports, a relaxation of import barriers for Mexico could cause a reduction in many of the Caribbean's most valuable exports.

Again, one of the best examples of this potential for displacement is in the area of textiles. Under NAFTA, Mexican textiles and apparel will benefit from a progressive tariff reduction over a ten-year period. This would introduce a new dimension of competition, creating a situation whereby CBI-produced garments made from U.S. textiles would have to compete at a price disadvantage against Mexican apparel made from Mexican textile. This would displace both CBI apparel producers and U.S. textile manufacturers, sought the cheaper Mexican garments.

On a regional economic level, there could be an erosion of the economic gains of the past decade because NAFTA could cause the following:

1. Trade Diversion

The elimination of quota and phase-out of tariffs on Mexican products could remove or at least reduce the advantage enjoyed by CBI exports to the United States. This could cause a diversion of U.S. demand from suppliers in CBI countries to firms in Mexico, thus reducing CBI exports. This would aggravate the balance of payments difficulties of Caribbean economies.

2. Investment Diversion

As trade prospects and advantages in the Caribbean diminish, investors will begin to redirect their funds to Mexico. This diversion of investment, the beginning of which is already evident from investment patterns throughout the region.

3. Relocation Of Production Capacity

Existing productive enterprises, which had originally located in the Caribbean to take advantage of the access to the U.S. market, could transfer or close operations in preference for Mexican locations, which have the advantage of better access to the U.S. market access. NAFTA discriminates in favor of Mexico against the CBI region.

4. Contraction Of Economic Activity

The loss of trade and investment opportunities would precipitate a decline in business confidence and economic activity, undermining development prospects throughout the Caribbean. Caribbean governments would inevitably find it more difficult to sustain their own economic reform and structural adjustment programs, becoming more reliant upon bilateral aid programs.

5. U.S. Jobs Losses

Ultimately, the large number of American jobs depend on healthy Caribbean trade flows would be lost as commercial opportunities contracted in the Caribbean.

6. Trade Deficit Aggravated

The loss of U.S. export opportunities would reduce the stable trade surplus that the United States maintains with the Caribbean.

The CBI has served as a catalyst for the creation of jobs and economic development between the CBI countries and the United States, therefore the de facto elimination of CBI trade provisions could cause a long term reversal in that economic relationship. This effect has already been documented as investors evaluate the provisions and likely implementation of NAFTA. The United States International Trade Commission (ITC), in a report entitled, "Potential Effects of a North American Free Trade Agreement on Apparel Investments in CBERA countries", has concluded that "NAFTA will introduce incentives that will tend to favor apparel investment shifts away from the CBERA countries to Mexico".

III.KEY ELEMENTS OF THE H.R. 1403 BILL

A. Creation of a Level Playing Field

H.R. 1403 recognizes the importance of trading relationships to the Caribbean by explicitly ensuring that a level playing field exists between Mexican and Caribbean exporters with regard to the U.S. market. This would involve upgrading CBI to cover those products which are exempted from duty free treatment under CBI, and those goods and services placed at a disadvantage vis a vis Mexico by the provisions of NAFTA. In a word, it would provide **non-discriminatory access** for Caribbean products in the U.S. market. For example, the textile and apparel sector is a key CBI export industry and is currently subject to many restrictions.

H.R. 1403 would create no special benefits for the CBI that wouldn't already exist for Mexico. Nor would it legislate special treatment for CBI producers in excess of that granted Mexico. Nor would it go into effect in the absence of an agreement on NAFTA. It would merely extend to the Caribbean, those provisions that would apply to Mexico under NAFTA. In this sense, H.R. 1403 embodies the spirit of a "free trade agreement" by guaranteeing that trade responds to free market forces, rather than artificial government barriers.

B. Parity As A Transitional Arrangement

H.R. 1403 establishes simultaneous and equivalent treatment for CBI countries and Mexico in terms of tariffs, rules of origin, and quota elimination. Any delay in the establishment of this parity principle could result in uncertainty, leading to trade and investment diversion from the Caribbean Basin. Even the uncertainty that would be engendered by a one-year delay could do serious damage to the trade-reliant economies of the Caribbean.

At the same time, H.R. 1403 establishes parity as a transitional arrangement to enable the economies of the CBI region to complete their process of economic reform liberalization and structural adjustment, which will put them in a position to move towards full reciprocity. Economic reform and market access must be simultaneous. A premature attempt by the CBI countries to provide full reciprocity could be detrimental to the process of adjustment, since export - led growth is only possible with stable market access.

C. The Three Year Negotiation Period

Currently, the bill establishes parity for a three-year period, during which the Administration can begin and conclude negotiations for free trade agreements with CBI countries or CBI countries can accede to NAFTA. The three-year period should incorporate some flexibility, which would allow each nation to accommodate its own economic realities. A major concern is that the three-year period may represent an artificial deadline, cutting

off on going negotiations. One solution would include a provision allowing the Administration, after appropriate consultation with the Congress, to extend the three-year deadline in cases where negotiations are in progress and reasonably expected to result in a concluded agreement.

D. Long Term Reciprocal Arrangements

H.R. 1403 lays out the process through which negotiations for long term free trade agreements can be executed with the United States. This title acts as further stimulant to the Caribbean economies to continue to implement trade liberalization and economic reforms in order to accede to full free trade negotiations with the United States.

It also puts the CBI countries on notice that preferential trade arrangements -- such as the CBI or the LOME Convention -- will not exist indefinitely. The region must adapt to the gradual erosion or elimination of preferential trade regimes in favor of reciprocal trading systems. In order to cope with this profound change, these economies must continue the process of adjustment and reform, to ensure that in the not too distant future they will be able to compete effectively in quality, and price in the global marketplace.

E. Phased Reciprocity over an Appropriate Adjustment Period

Having utilized a transitional period based on similar market access to that provided to Mexico under NAFTA, CBI countries will be in a position to begin to phase-in reciprocity over a similar period. A suitable adjustment period should take account of the small size and undiversified structure of Caribbean economies. Although H.R. 1403 does not expressly discuss these time frames, it implicitly endorses this mechanism. The form, specifics, and pace of reciprocity, should be worked out between the United States and individual countries, possibly through the institutional mechanism of the Trade and Investment Framework Agreements, which were operationalized under the auspices of the Enterprise for the Americas Initiative.

F. Implementation of Side Agreements

H.R. 1403 would require that the negotiations of free trade agreements with Caribbean Basin countries include provisions pertaining to environmental, labor, and import issues that would be comparable to those in NAFTA. We support and fully endorse this concept and believe it is consistent with the principle of establishing a level playing field. In securing equal access to the U.S. market, we are prepared to maintain adequate environmental protection, universal safeguards for workers' rights, and mechanisms to protect the domestic economy from import surges.

IV. JAMAICA'S ECONOMIC REFORM AND TRADE LIBERALIZATION

A central premise of H.R. 1403 is the provision of an adjustment period during which Caribbean countries can establish the necessary economic pre-conditions for free trade. Jamaica, has already taken most of these steps.

A. Commitment to Trade Liberalization

Jamaica is committed to trade liberalization within the hemisphere and to a multilateral trading system which approaches free trade as far as possible. In the last three years there has been a substantial acceleration in the process of liberalizing the trade regime of Jamaica, with an emphasis on the removal of import restrictions and the lowering of tariffs. This commitment to outward-looking trading and development policies is firmly based on the knowledge that the benefits to be derived, are those of higher growth rates and enhanced capacity to adjust to external shocks.

Expanding trade contributes to growth by enabling the economy to improve its productivity by specializing in exports in which it has a comparative advantage. Production for the world market allows firms to achieve the economies of scale which are precluded by a small domestic market. Exposure to competition from imports serves to improve cost efficiency and benefits consumers by lower prices. Jamaica is convinced that an open multilateral trading system is a stimulant to economic growth both through the static gains from increased efficiency in the utilization of its existing resources and the dynamic gains from the opportunities to expand productive capacity through new technology, investment and innovative entrepreneurship.

B. Record of Trade Liberalization

The process of trade liberalization which began in 1987 is essentially complete. In December 1991 the average tariff for the economy as a whole was 20.3%, having been cut by 60% since 1989 when the average tariff was 49.9% The current tariff range is 0% to 45% but the majority of products bear 10% or less tariff, i.e. 58% of the tariff positions in the Harmonized System Classification bear a tariff of 10% or less. Import licenses are only required on certain hazardous chemicals, arms and ammunition. Hence, the United States has free access to the Jamaican market, and enjoys most-favored nation status. Tariffs apply to all countries, with CARICOM member countries enjoying some tariff concessions.

C. Improved Market Access for U.S. Products

There are no non-tariff barriers and there have been no cases of restrictions on U.S. exports by standards, testing, labelling and certification. Government procurement practices allow U.S. firms and goods to compete freely. The Jamaican customs administration while still attempting to improve its efficiency, has not and is not an impediment to U.S. exports or investors requiring imported inputs.

D. Substantial Reciprocity Already Provided

The policy of trade liberalization has provided improved U.S. access to the Jamaica market and represents substantial reciprocity by Jamaica in response to CBI preferential access. It has transformed the basis of U.S.-Jamaica trade from one based initially on preferential access to the United States market to one of virtual reciprocity.

E. Economic Reform

In recent years Jamaica has implemented a policy package of stabilization, economic reform and structural adjustment designed in conjunction with the IMF, World Bank, and IADB. This has involved a market determined exchange rate, reduction of the fiscal deficit, privatization of government owned enterprises, removal of price and rent controls, progressive elimination of subsidies, complete removal of exchange controls, and an open market credit policy. The objective is to ensure that private enterprise, which is the engine of growth, operates in an environment in which market forces decide resource allocation, promotes increased levels of domestic savings and investment, increased efficiency and improved competitiveness..

F. Protection of Intellectual Property Rights

Concurrent with these reforms, Jamaica has strengthened key elements of the business environment and now has a priority intellectual property rights (IPR) enforcement. Jamaica is a member of the World Intellectual Property Rights Organization (WIPO), and has recently enacted a Copy Right Law to protect intellectual property ownership. Jamaica is currently in advanced negotiations with the Government of the United States for a

bilateral intellectual property agreement. Similarly, we have concluded a bilateral investment treaty (BIT) with the United States to guarantee reciprocal and mutual treatment of investment in both countries. This BIT will be signed as soon as the IPR Agreement is finalized.

The success of our adjustment process, which has been endorsed and highly praised by the multilateral financial institutions, will largely depend on increased investment in our private sector and export led growth. The strategy of economic reforms can be enhanced and brought to fruition by improved export market access for new and traditional exports. The passage of the H.R. 1403 parity legislation is essential to ensure that the CBI countries retain their relative advantage in the U.S. market in the medium term.

V. CONCLUSION

As the world economy becomes increasingly trade driven, and production is denationalized, small countries face both new challenges and new opportunities. NAFTA, linking the three most developed economies of the hemisphere, is an important step in this continuing globalization of production and finance to which the small countries of the Caribbean and other CBI states will have to adjust. Fortunately, this process of adjustment is well advanced in the Caribbean with many countries pursuing outward looking market-oriented growth strategies.

The CBI and the access to the U.S. market it provides has been critical to the economic restructuring and diversification taking place in the region, contributing, in particular, to economic growth. Both trade and investment diversion will occur and the economic prospects of the region seriously harmed should NAFTA be implemented without provisions such as contained in the Gibbons Caribbean parity legislation which ensure that CBI countries are not placed at a disadvantage. The well-being of the hemisphere will be ill-served if the interests of the smaller and more vulnerable economies are not taken fully into account as NAFTA is implemented.

Mr. Chairman, we know that you and the co-sponsors have been supporters of the CBI in Congress and that it was your leadership which contributed to the passage of the original legislation as well as the 1989 passage of CBI II, which extended the benefits of the CBI for an indefinite period. For the Caribbean, the introduction of H.R. 1403, a bill to ensure that a North American Free Trade Agreement does not undermine or lessen the benefits we mutually derive from the CBI, is a consistent and logical follow on to the original CBI legislation. This legislation, which Jamaica endorses and support will ensure continuity of as stable framework for the expansion of U.S-CBI trade and investment. It will insulate U.S.-CBI trade from possible disruption and contraction by providing similar access to the U.S. market for Mexico and the CBI countries during a three-year transition period.

The CBI, is premised upon the recognition of U.S. interest in assisting the development of strong economies in the Caribbean Basin through trade, not aid. Jamaica welcomes this approach because we are fully committed to economic reform which strengthens and sustains private sector-led, market-driven economic growth. Jamaica does not wish to continue indefinitely as a recipient of foreign aid and is on a course, which will reduce and eventually eliminate the need for foreign assistance from the U.S. Trade is much more effective than aid, in promoting economic development and ensuring political stability in Caribbean societies. Given the limited size of the CBI economies, providing such support would entail minimal cost, since free trade with the Caribbean would have virtually no dislocating effects on U.S. industry and commerce.

The United States cannot be a oasis of well being in the midst of under-development and poverty. Therefore, the continued

expansion of trade is crucial because jobs created contributes to the economic viability of the United States and the Caribbean. Economic growth helps CBI countries to alleviate the poverty, which spawns crime, narcotics trafficking, and illegal immigration. As the United States forges a new partnership with its Caribbean neighbors, it is vital that it does not lose sight of the fact that the poverty and underdevelopment in the region can only have adverse effects on U.S. national efforts to combat illegal narcotics trafficking and excessive immigration.

Trade liberalization, including NAFTA, represents both a challenge and an opportunity which the countries of the Caribbean Basin must seize. H.R. 1403 provides us the opportunity to meet that challenge to ensure that the success of the Caribbean/U.S. trade relationship, with its positive impact on job creation in both economies, remains an catalyst for our mutual prosperity.

Chairman PICKLE. Thank you, Ambassador, for a very good statement, well-documented. Thank you, sir.

Now we will hear from Ambassador Jose del Carmen Ariza on behalf of the Dominican Republic.

Mr. Ambassador.

STATEMENT OF HIS EXCELLENCY JOSE DEL CARMEN ARIZA, AMBASSADOR TO THE UNITED STATES FROM THE GOVERNMENT OF THE DOMINICAN REPUBLIC

Ambassador DEL CARMEN ARIZA. Thank you, Honorable Chairman Pickle of the Oversight Subcommittee and honorable members of that committee and of the Trade Subcommittee of the Ways and Means Committee of the House of Representatives of the Congress of the United States, and honorable Ambassadors and members of the Diplomatic Corps, ladies and gentlemen, good morning.

We requested your attention at this public hearing called by the Honorable Chairman of the Trade Subcommittee not necessarily to add more substantial arguments to the written statement that we presented to this body the past April 30 on the behalf of the Government of the Dominican Republic.

Nevertheless, we registered to present oral testimony before this audience because we are convinced that there will never be too many opportunities to express solid support for the Caribbean Basin Free Trade Agreement Act until it is approved and enacted.

Nor do we believe to be repetitious if we commend Chairman Gibbons, Chairman Pickle, and express our gratitude to him and to his distinguished colleagues, Crane and Rangel, on behalf of the people and the Government of the Dominican Republic for the legislative initiative formulated to ensure the commitment of the United States toward continued social and economic development of the region, as provided in the existing Caribbean Basin Initiative program, by awarding our countries the same benefits granted to Mexico through the North American Free Trade Agreement, protecting us from diversion of investments and other unintended consequences of NAFTA when it becomes operational.

We thank our friends in Congress and the U.S. administration for providing such an inventive mechanism that will permit us restructuring our economies to face international competition as a challenge to improve and perform better through upgrading technologically and investing in education, training, and organizational excellence.

We dare to announce to this conference today that a new partnership for development and competitiveness between the United States and the Caribbean Basin community is about to be born, if we all show our willingness to make it happen.

Let it be known, for the record's sake, that with the sole suggestion to modify the 3-year NAFTA parity cutoff time, better known as the transition period, to accommodate it to a more realistic and flexible term, we wholeheartedly support the bill's text.

As you know, negotiations could be successfully accomplished within a shorter or longer timeframe, depending on conditions that could change at random. Moreover, an impartial transition period should reflect total completion of a serious and good-faith negotiating process between the parties.

We therefore consider that discretionary authority could be extended to the administration, after consultation with Congress, to condition or suspend NAFTA parity benefits, if it were established that such country or group of countries were not negotiating in good faith to either accede NAFTA or subscribe a free trade agreement with the United States.

Periodic meetings of the Bilateral Trade and Investment Council, as prescribed in the existing beneficiaries countries' framework agreements, would provide designating criteria and efficient follow-up on the progressive expansion of those nations' economic and structural reforms.

Although many of the following facts have shown up on previous statements, we wish to share them again with the Honorable Chairman and the members of the subcommittee.

First, according to 1992 U.S. Department of Commerce statistics, the 27 eligible CBI program countries imported $11.4 billion from the United States and exported $10.1 billion to the United States for a total trade of $21.5 billion in 1992. The United States registered a trade surplus with these countries in the amount of $1.3 billion.

The U.S. International Trade Commission asserted that the Caribbean Basin was the eleventh largest export market for the United States, ranking before Australia and Italy.

Second, the Department of Commerce estimates that each $1 billion of U.S. exports creates 20,000 U.S. jobs, thus the $11.4 billion in U.S. exports to the region supported almost 230,000 direct American jobs in 1992.

Third, furthermore it is verified that 60 percent of the Caribbean and Central American average income goes to buy American products, compared to Asia, which only spends 10 percent, and that 45 percent of all raw materials, machinery, and equipment imported by Caribbean Basin countries come from the United States.

In addition, estimates show that while the region exports to the United States represented only 1.5 percent of total U.S. imports in 1990, Japanese and East Asian newly industrialized countries' exports added to 30 percent of total U.S. imports.

Fourth, it has also been appraised that since CBI was enacted in 1984, the United States has become one of the major beneficiaries of the program—7 years in a row, a surplus, as asserted by Mr. Pickle before—when compared to the other 27 eligible countries' performance. The United States greatly benefits when the economies of the region are healthy and strong.

Fifth,the CBI region's immigration to the United States, representing today 20 percent of the total, and the pressure it exerts on the U.S. labor market and services will be both greatly diminished if suitable U.S. investment and trade policies for the region are maintained.

Sixth, studies show that people experiencing deep-rooted unemployment and social degradation are more likely than others than to consume drugs and to enter into narcotics production and trade as a source of income.

Seventh, removing trade and investment preferences to the region dampens government efforts for economic reforms and modernization.

Eight, U.S. aid levels dropped from $827 million in 1991 to $633 million in 1993 in Central America. In the Caribbean, they have been slashed from $205 to $181 million, and total U.S. assistance is also dropping. Approval of H.R. 1403 could compensate for the lack of direct U.S. assistance.

Ninth, the American Apparel Manufacturers Association, the AAMA, which together with the American Textile Manufacturers Institute are about the largest investors under the present Caribbean Basin program, asserted in its statement in support of H.R. 1403 that if the Caribbean garment industry were to be shut down, those thousands of U.S. related apparel jobs existing in the region would not come back go the United States, but rather would migrate to the Far East.

Tenth, it added that even when supporting NAFTA and the idea of CBI parity was not an easy decision for the members to reach, they believed that a viable apparel manufacturing industry in the United States can only be accomplished within the context of NAFTA and CBI parity.

Eleventh, according to AAMA assessments, its 807 production program, used extensively in CBI's manufacturing operation, generates 15 apparel jobs and maintains thousands more in textile, transportation, and other industries in the United States for every 100 jobs it creates in the region.

Twelfth, moreover AAMA emphasizes that the production-sharing system developed with the CBI countries have allowed its industry to compete with low-wage Far Eastern imports and reduce their fast-growing penetration in to the U.S. market.

Mr. Chairman, the above facts and considerations explain our determination to endorse H.R. 1403 to ensure that while Caribbean Basin look forward to NAFTA's approval, they are not adversely affected by its implementation. They also show that the U.S. business and labor interests, far from being damaged, are actually helped by increasing trade with the Caribbean and prove that regional production complements, rather than replaces, U.S. operations.

It is finally on this line of reasoning that we consider that prompt passing of H.R. 1403 will ensure the successful achievement of the bill's objectives as enunciated previously, as well as the fulfillment of the progressive actions yet to be executed by the Caribbean community to deepen its reforms and continue moving behind further economic integration in the Western Hemisphere to yield both, United States and the region's business and labor, reciprocal benefits by removing barriers to trade and investment on a mutually advantageous basis.

Mr. Chairman, after listening to the statement presented by the Honorable Congresswoman Olympia J. Snowe from Maine, opposing section 222 of the CBI and referring to the Dominican Republic, we ask, Mr. Chairman, to allow us to add a very brief comment.

Chairman PICKLE. You may proceed, yes. Is it a short statement?

Ambassador DEL CARMEN ARIZA. Yes.

Chairman PICKLE. Go right ahead.

Ambassador DEL CARMEN ARIZA. Thank you.

Section 222 is a part of the Caribbean Basin Initiative designed to assist the economies of the Caribbean countries. section 222 al-

lows footwear produced in certain Caribbean countries with 100 percent U.S. components to enter the United States duty-free.

The purpose of this section is to keep as much footwear production as possible from fleeing to offshore locations such as the Far East, while providing an incentive to footwear manufacturers to purchase U.S.-made components.

U.S. companies such as Timberland, Sebago, Stride Rite, G.H. Bass, Rocky Shoes & Boots, Carter Shoe, U.S. Shoe, Lowes Shoe, and others are producing in the Dominican Republic and in many other countries under this program.

Section 222 prevents footwear companies from following the well-tread path to Asia, and we have written proof of this. It is obviously far better for these companies to manufacture products closer to home with U.S. components and materials than to shift production to Asian nations with Asian components and materials. The loss of section 222 will lead to such a shift in production, which will translate directly into loss of jobs in the United States where U.S. components and materials are manufactured for CBI.

Thank you very much, Mr. Chairman.

[The following was subsequently received:]

EMBAJADA DE LA REPUBLICA DOMINICANA
WASHINGTON

00 398

June 28, 1993

The Honorable
J. J. Pickle
Chairman
Oversight Subcommittee of the
Committee on Ways and Means
U.S. House of Representatives
242 Cannon House Office Building
Washington D.C. 20515-4310

Dear Chairman Pickle:

While testifying to the two subcommittees during the public hearing on H.R. 1403 last Thursday, June 24, the undersigned added, with your permission, at the end of our statement on the main subject, a brief comment related to section 222 of the Caribbean Basin Initiative that could not be deposited that day because it was prepared at the hearing room after the presentation made by Congresswoman Olympia J. Snowe from Maine.

Please find enclosed a copy of the written statement submitted by Sidney Swartz on behalf of Timberland Company regarding efforts to repeal section 222 to which I referred during the comment previously mentioned as the written proof of the potential effects of that repeal.

These documents are being submitted in order to be added to the official statement handed at the Subcommittee on Trade's office prior to the hearing to be recorded in the corresponding minute.

Sincerely,

José del Carmen Ariza
AMBASSADOR

JCA:ck

cc: Chairman Sam Gibbons/Subcommittee on Trade

Enclosure

EMBAJADA DE LA REPUBLICA DOMINICANA
WASHINGTON

"Mr. Chairman:

After listening to the statement presented by the Honorable Congresswoman Olympia J. Snowe from Maine, opposing section 222 of the CBI, and referring in the same to the Dominican Republic, we ask you Mr. Chairman, to allow us to include a brief comment.

Thank you Mr. Chairman:

"Section 222 is part of the Caribbean Basin Initiative, designed to assist the economies of Caribbean countries. Section 222 allows footwear produced in certain Caribbean countries with 100% U.S. components to enter the U.S. duty-free. The purpose of this section is to keep as much footwear production as possible from fleeing to offshore locations, such as the Far East, while providing an incentive to footwear manufacturers to purchase U.S. made components.

U.S. companies such as Timberland, Sebago, Stride-Rite, G.H. Bass, Rocky Shoes & Boots, Carter Shoe, U.S. Shoe, Lowell Shoe and others are producing in the Dominican Republic under this program.

Section 222 prevents footwear companies from the following well-tread path to Asia - and we have written proof of this -. It is obviously far better for these companies to manufacture products closer to home with U.S. components and materials than to shift production to Asian nations with Asian components and materials. Loss of Section 222 will lead to such a shift in production, which will translate directly into loss of jobs in the United States where U.S. components/materials are manufactured for CBI."

June 25, 1993

Chairman PICKLE. Thank you very much, Ambassador, for that statement.

Now we will ask the Honorable Corinne McKnight, Ambassador to the United States from the Republic of Trinidad and Tobago to make her statement.

Incidentally, I will observe that this country is one of the countries to take advantage of 936 funds. So we are pleased to have you here this morning.

Ambassador McKnight.

STATEMENT OF HER EXCELLENCY CORINNE McKNIGHT, AMBASSADOR TO THE UNITED STATES FROM THE GOVERNMENT OF THE REPUBLIC OF TRINIDAD AND TOBAGO

Ambassador MCKNIGHT. Thank you very much, Mr. Chairman. I offer good morning to you, Mr. Chairman, and to the members of this committee.

I am very pleased to be here to testify on the Caribbean Basin Free Trade Agreements Act.

First of all, let me express the sincere appreciation of my Government to Chairman Gibbons for his initiative in offering this legislation and to you, Chairman Pickle, and to Messrs. Rangel, Green, Mfume, and Ms. McKinney for sponsoring the legislation.

Trinidad and Tobago supports the Caribbean Parity Bill because it recognizes the changing configuration of hemispheric trade and at the same time balances the specific transitional needs of the Caribbean countries.

H.R. 1403 serves as important stimulus for the Caribbean countries to improve their economic performance and to foster the development of competitive and efficient private sectors. H.R. 1403 will reassure companies, which have already been shocked by significant reductions in protectionist tariff and nontariff barriers at home, that the North American market will remain open to them.

Mr. Chairman, over the past 3 years, Trinidad and Tobago has seen its imports from the United States rise from $500 million to $700 million last year. This is a direct result of the improved investment climate brought about by large investments by U.S. companies.

But trade is a two-way street, and at this time Trinidad and Tobago exports 50 percent of its total exports to the United States.

Mr. Chairman, of particular interest to Trinidad and Tobago in the NAFTA bill is the treatment of petroleum and petroleum products. A population of 1.2 million, which is the size of Trinidad and Tobago, is too small to sustain the development of large industries. The petroleum and hydrocarbon sector in Trinidad and Tobago is one such industry.

We export close to 90 percent of our production. In 1991, this sector accounted for just under 25 percent of GDP, which, in turn, accounted for 40 percent of Government revenue and 82.4 percent of foreign exchange.

I should underscore the fact that at the same time this represents less than 2 percent of the petroleum imported by the United States. This, therefore, is a most relevant aspect of the Parity Bill for my country.

Even when CARICOM consumption is factored in, Trinidad and Tobago remains crucially dependent on the North American market to make its petroleum sector viable.

Mr. Chairman, our production has been declining in recent years; however, this sector will continue to be a major contributor to the economy, and for this reason, in order to make our product more competitive, the Government, with the assistance of an IDB loan, has embarked upon a project to rationalize the industry and upgrade the refinery capacity. The result of this would be a product higher valued and higher quality to meet the specification currently demanded by the U.S. market.

Mr. Chairman, the U.S. policy in the Caribbean over the past decade has been centered on the development of healthy economies through private-sector-led growth. U.S. Government initiatives have consistently underscored that the small size of the Caribbean economies had to be taken into account in the design of these growth-fostering policies.

The case of the petroleum products from Trinidad and Tobago is one such example. We play a very minor role in the international oil industry. However, this sector has provided and continues to provide us with real advantages in terms of economic growth and stability, provided, that is, that we are able to export on favorable terms.

The NAFTA schedule for the reduction of tariffs on most petroleum and petroleum products is graduated over 10 years with a 10 percent reduction each year. What this means for Trinidad and Tobago and other CARICOM/CBI exporters is that our petroleum products will be in direct competition with similar products from Mexico. Mexico's daily production of petroleum is 20 times that of Trinidad and Tobago. Mexico has, in recent years, increased its production under an advantage of progressively lower tariffs, and thus could very likely supplant comparable products coming from these countries.

Mr. Chairman, Trinidad and Tobago is not the only CARICOM country that is affected. I should point out that the Bahamas in 1991 also derived 7 percent of its GDP from petroleum sales to the United States.

I cannot conclude this specific example without mentioning that one of the most important arguments in favor of parity is that it will strengthen the relationships that exist with our U.S. investors. The petroleum industry in the Caribbean at the moment is open to U.S. services and, in fact, almost 100 percent of the equipment and services imported into the area are of U.S. origin.

This is a sector of the economy that has allowed us in Trinidad and Tobago to import over $1 million in goods and services from Florida, a comparable amount from Texas, and substantial amounts from Louisiana, Georgia, New York, Pennsylvania, Alabama, California, and North Carolina.

Mr. Chairman, in terms of our dependence currently on this sector, we, too, plead for a level playing field.

For the Caribbean and indeed Trinidad and Tobago, growth means managed diversification. As we search for income and employment-generating alternatives, we in Trinidad and Tobago will

continue to look to the energy sector to provide a basis from which we can facilitate growth and develop new industries.

Other CARICOM countries are equally dependent upon one or two principal commodities. Managed diversification is a process which takes time. It includes relevant market research and market trend forecasting and recognizes that constant adjustment needs to be effected in order to keep an economy healthy and strong.

One of the objectives inherent in the parity legislation is the encouragement of such diversification. For example, significant unused quota in the garment sector exists within the region, mainly in Trinidad and Tobago and in the Eastern Caribbean. The main reason for this has been the difficulty in attracting investments. Initially this was because CBI I was a temporary benefit. Despite the advent of CBI II, a permanent arrangement, uncertainty is now created by the NAFTA provisions which perpetuate the problem of attracting investors.

The attraction of the U.S. market and the promise of the 360 million consumer NAFTA market, as CARICOM countries accede to the treaty, will be a powerful incentive to these new industries.

Mr. Chairman, specific examples are important, but there are other overarching reasons that make introduction and passage of H.R. 1403 important to the entire region.

H.R. 1403 would be a continued incentive to CBI countries to deepen the economic reforms that have been initiated. The far-ranging series of economic reforms that my country has undertaken unilaterally is in the spirit of this legislation. Even our multilateral partners have been stunned at the speed and energy with which we have liberalized our economy over the past months.

We have been warned of the social impacts of such rigorous structural adjustments, but, Mr. Chairman, Trinidad and Tobago has a long history of labor unions and development of worker rights. Worker rights are entrenched in my country.

However, Trinidad and Tobago also knows that economic reform that is not conducted in tandem with social reform can give rise to some dangerously antidemocratic tendencies. Examples of such abound. Suffice it to say that we are painfully aware that no country is immune from these potential upheavals.

It should be considered, Mr. Chairman, that our serious desire to be a credible partner is paying dividends. Over the past months, we have had a successful international bond issue floated. We have received OPIC investment missions. And more recently, the Securities and Exchange Commission has granted fund effectiveness for a new growth and income fund.

Trinidad and Tobago wants to continue to inspire confidence, and we believe that nondiscriminatory access to the U.S. market is a sure way of developing a mutually beneficial relationship.

Mr. Chairman, H.R. 1403 is viewed by us as a continuum with CBI and the EAI, and it will help to create predictability in the region's investment and trade.

Developing countries like ours must adopt long-term plans in order to build progressively infrastructure, human resources, and industries in which some comparable advantage exists. These long-term strategies are all too frequently derailed by radical policy

shifts within the multilateral and bilateral development institutions.

In expressing its support for H.R. 1403 and highlighting its potential impact as one of the larger economies in the CARICOM region, Trinidad and Tobago is making a plea on behalf of all of its CARICOM and CBI partners for the predictability that paves the way for logical, measured, and sustained reform.

Let me remind the committee of this point, of the recent debate on section 936 funding. Trinidad and Tobago joined other CBI countries and signed a tax information exchange agreement in order to access this important fund of investment capital in 1990. In the 2½ years that followed, U.S. investors and their Trinidadian counterparts have started use of this fund in earnest. To date, over $300 million has been disbursed for important export-oriented products.

Mr. Chairman, at this moment, we find ourselves in a situation where the uncertainty of the future of the 936 funding, all such funding has ceased. At the same time with the uncertainty over the provisions of NAFTA and how it will affect the CBI countries, we are, with our TIEA intact, an investment steward. We are in a situation of double jeopardy, Mr. Chairman.

We in the Caribbean are willing to persevere in our pursuit toward NAFTA accession, but we need the evidence of constancy and predictability that H.R. 1403 will provide.

This parity legislation will also help to promote increased social responsibility in the private sector. By passing 1403, you will be helping Trinidad and Tobago and indeed CARICOM to become the strong and credible hemispheric partners we aspire to be.

In contrast, losing this opportunity could nullify the sacrifices that our populations have already made, destroy much of the hard work that has already been undertaken, and the achievements which we have accomplished. It would also weaken the political will that is crucial to our economic transformation. Indeed, in the short term and the long term, it could reverse some of the economic benefits which the United States has enjoyed as a result of the CBI.

Allow me to conclude, Mr. Chairman, by asking that my written statement be included in the record and thanking you, Mr. Chairman, for allowing me this opportunity to express my Government's support for this bill.

Thank you.

[The prepared statement follows:]

STATEMENT BY HER EXCELLENCY CORINNE MCKNIGHT

AMBASSADOR OF TRINIDAD AND TOBAGO TO THE UNITED STATES

BEFORE THE SUBCOMMITTEE ON TRADE OF THE COMMITTEE ON WAYS AND MEANS

OF THE U.S. HOUSE OF REPRESENTATIVES

ON

H.R. 1403, THE "CARIBBEAN BASIN FREE TRADE AGREEMENTS ACT"

JUNE 24, 1993

Good morning Mr. Chairman and members of this Honorable Committee. My name is Corinne McKnight and I am the Ambassador of Trinidad and Tobago to the United States. I am pleased to be here this morning to testify on the Caribbean Basin Free Trade Agreements Act. Before I begin, however, I would like to express the sincere appreciation of my government to the Chairman for taking this important initiative and to Messieurs Pickle, Rangel, Crane and Mfume and Ms. McKinney for co-sponsoring this legislation.

The passage of the North American Free Trade Agreement will usher in a new era of hemispheric cooperation. Countries like my own view NAFTA as the next rung on the ladder of trade liberalization. Trinidad and Tobago supports the Caribbean parity bill because it recognizes the changing configuration of hemispheric trade while balancing the specific transitional needs of Caribbean countries. Like CBI I and II and the Enterprise for the Americas Initiative, H.R. 1403 serves as an important stimulus for Caribbean countries to improve not only their economic performance but to foster the development of competitive and efficient private sectors. H.R. 1403 reassures companies that have already been shocked by significant reductions in protectionist tariff and non-tariff barriers at home that the North American market will be open to them.

PETROLEUM AND PETROLEUM PRODUCTS

Trinidad and Tobago's imports from the U.S. have been rising constantly from $500 million in 1990 to approximately $700 million last year. It is important to understand that the rise in imports is linked to our improved investment climate. Within the past 18 months, three major U.S. companies have made significant investments in our economy-- all of which are using substantial U.S. inputs. But trade is a two way street: Trinidad exports 50% of its total exports to the United States. This figure is significant because it is an early indication to this Committee of the importance of the U.S. market to my country. It also suggests that the preferential treatment that would be Mexico's under NAFTA could seriously affect our export potential in the absence of parity.

Trinidad and Tobago's population is only 1.2 million which means that the local market for domestic production is frequently too small to sustain the development of certain industries. This is certainly the case of our petroleum and hydrocarbon sector. Our economy is petroleum based. We export close to 90% of our production. In 1991, this sector accounted for 24.7% of GDP, 40.5% of government revenue and 82.4% of foreign exchange, all this with U.S. sourcing less than 2% of its imported petroleum and petroleum products from my country. The most relevant aspect of the parity bill therefore for Trinidad and Tobago is that related to our ability to continue to export to the U.S. when NAFTA comes into effect. We are aware that Mexico's daily production of petroleum is twenty times that of Trinidad and Tobago, however, its population is 75 times greater. Even when CARICOM consumption is factored in, Trinidad and Tobago still would need access to the North American market to make its petroleum sector viable.

Trinidad's production has been declining in recent years because many of our fields have been producing for over a century. However, this sector will continue to be a major contributor to the economy. Therefore, in order to utilize the excess refining capacity and at the same time become more competitive in an age where the refined product specifications have been upgraded the government of Trinidad and Tobago has embarked on a project to rationalize the industry and upgrade the refining capacity with the assistance of an IDB loan. This should result in the Pointe-a-Pierre Refinery producing a higher valued and quality product to meet the specifications currently demanded in the U.S. market.

Mr. Chairman, the U.S. policy in the Caribbean over the past decade has been centered on the development of healthy economies through private sector-led growth. The U.S. government initiatives have consistently underscored that the small size of the Caribbean economies had to be taken into account in the design of these growth-fostering policies. The case of the petroleum products from Trinidad and Tobago is such an example. We play a minor role in the international oil industry; however, this sector has provided and continues to provide us with real advantages in terms of economic growth and stability -- provided that we are able to export on favorable terms.

The NAFTA schedule for the reduction of tariffs on most petroleum and petroleum products is graduated over 10 years with a 10% reduction each year. What this means for Trinidad and Tobago and other CARICOM/CBI exporters is that our petroleum products will be in direct competition with the same products from Mexico. Mexico with its increased production will have the advantage of progressively lower tariffs and thus could very likely supplant comparable products coming from these countries.

Trinidad and Tobago is not the only CARICOM country affected. I should point out that The Bahamas, in 1991, also derived 7% of its GDP from petroleum sales to the United States.

I could not conclude this specific example of the importance of NAFTA parity in the petroleum sector without mentioning the special role played by the U.S. petroleum companies in the development of this sector. One of the most important arguments in favor of parity for CBI countries is that it will strengthen the relationships that exist with our U.S. investors. Many of these investors are in our region because of the leadership and commitment of the U.S. Congress in emphasizing the importance of a mutually healthy economic relationship with the Caribbean.

As Trinidad and Tobago's economy has been built up in part through this type of U.S. investment, so have Trinidad and Tobago's imports from the U.S. grown. My country purchased almost $100 million in goods and services from your state, Mr. Chairman, last year. The state of Texas, with its numerous oil and gas companies also benefitted from our continued growth selling over $107 million in goods and services to Trinidad. Louisiana, Georgia, New York, Pennsylvania, Alabama, California and North Carolina are all important trading partners for us. We believe that this trend should be encouraged and we believe that H.R. 1403 does just that. I come back again to a word I used earlier -- reassurance--; just as my government needs to reassure our private sector that the sacrifices they have endured and the stringent reforms that government is undertaking will lead to success, the actual and potential U.S. investors need to be reassured that the CBI countries are still important trading partners in the hemisphere. We all know that U.S. investment and trade follows U.S. policy priorities.

DIVERSIFICATION

For us in the Caribbean growth means managed diversification. Trinidad and Tobago is in the midst of weaning itself from its dependence on the energy sector. During the transition period, as we search for income and employment generating alternatives, the

energy sector will continue to provide our economy with a basis from which we can foster new industries. Other CARICOM economies are equally dependent on one or two principal commodities. The entire construct of a free trade area presupposes that each and every economic unit within the area can offer certain products and services at prices and with the quality that permit the returns necessary for growth. Managed diversification will take time. Relevant market research and market trend forecasting are at the core of this effort. One of the objectives inherent in the parity legislation is the encouragement of this diversification. Significant unused quota in the garment sector exists within the region mainly in Trinidad and Tobago and in the Eastern Caribbean. The main reason for this has been difficulty in attracting investment. Initially this was because CBI I was a temporary benefit. Despite the advent of CBI II, a permanent arrangement, uncertainty is now created by the NAFTA provisions which will perpetuate the problem of attracting investors. The attraction of the U.S. market and the promise of the 360 million consumer NAFTA market as CARICOM countries accede to the treaty would be a powerful incentive to attract these investors, thereby underpinning the intent of CBI with respect to investment opportunities in the Caribbean region.

ECONOMIC REFORM

Although specific examples of the potential effect of NAFTA on CBI countries are important, there are several other overarching reasons that make the introduction and passage of H.R. 1403 important to the entire Caribbean region. I will turn to these now.

H.R. 1403 is a continued incentive to CBI countries to deepen the economic reforms that have been initiated. This legislation is telling us that there is comprehension on Capitol Hill concerning our small economies but that this understanding is tempered by pragmatism. Within three years, CBI countries are urged to be ready to enter either free trade agreements or negotiations leading up to such.

The far ranging series of economic reforms which Trinidad and Tobago has undertaken unilaterally is in the spirit of this legislation. Over the past three years trade has been liberalized with the elimination of the negative list and programmed phased removal of non-tariff barriers; the currency has been liberalized and foreign exchange control removed; the public sector is being rationalized and particular attention is being paid to the deficiency of utilities.

Even our multilateral partners have been stunned by the speed and energy with which we have liberalized our economy over the past months and have warned us about the social impact of rigorous structural adjustment. This commitment to a healthy economy has indeed caused some serious dislocations. Labor unrest and increased unemployment have to be carefully managed in these transitional periods. Trinidad and Tobago has a long history of labor unions and the development of worker rights. My government is committed to the protection of these rights which have been hard won. We in Trinidad and Tobago know that it is only through continued growth that we will be able to provide employment, training and other necessary social services to our population. It is all too evident that economic reform that is not conducted in tandem with social reform can give rise to some dangerously antidemocratic tendencies. I think that the examples abound sufficiently in our common memory that I need not mention them here. Suffice it to say that no country is immune from these potential upheavals. The tendencies toward social unrest could not only adversely affect potential new investment but also undermine the viability of existing investment.

On the other hand, our serious desire to be a credible partner, to the fullest possible extent, in the hemisphere as shown through our commitment to economic reform is paying dividends. The

international capital markets gave us a vote of confidence this spring when we floated a bond issue. Upon liberalization in April last our currency stabilized quickly and that together with the removal of exchange controls restored investor confidence. Around the same time, the U.S. Securities and Exchange Commission granted fund effectiveness to the Chaconia Income and Growth Fund which I co-sponsored by the Trinidad and Tobago Unit Trust Corporation. The Overseas Private Investment Corporation conducted a successful mission to our country at the beginning of this year and the U.S. Embassy in Port-of-Spain signalled that the investment climate had improved significantly.

Trinidad and Tobago wants to continue to inspire confidence and we believe that non-discriminatory access to the U.S. market is a sure way of developing a mutually beneficial and even-handed relationship.

INVESTMENT AND TRADE ENVIRONMENT

Despite the numerous obstacles which confront us along the path to sustained development, we remain steadfast in our efforts to create an environment which will provide the appropriate legal, regulatory and institutional framework for foreign and domestic investment. Indeed, the proposed establishment of a Securities and Exchange Commission represents a major initiative in this regard and is expected to substantially enhance capital market activity in Trinidad and Tobago.

H.R. 1403 will help to create **predictability** in the region's investment and trade. This legislation should be viewed as a transitional agreement. Although we live in a world where change is the only constant, striving for predictability reflects a constancy of policy direction. I cannot overemphasize the importance of this point. Developing countries must adopt **long-term plans** in order to build progressively infrastructure, human resources and industries in which they have some comparative advantage. These long-term strategies are all too frequently derailed by radical policy shifts within the multilateral and bilateral development institutions. Funding and financing for policy-based reforms in developing countries are suddenly unavailable leaving a debris of half implemented reforms and a patchwork of uncompleted projects. It is this lack of insulation for mutually agreed policy direction that constitutes one of the critical components of instability.

In expressing its support for H.R. 1403 and highlighting its potential impact on one of the larger economies in the CARICOM region, Trinidad and Tobago is making a plea on behalf of all its CARICOM and CBI partners for the predictability that paves the way for logical, measured and sustainable reform.

936 FUNDING

Let me remind the Committee of the recent debate over Section 936 of the Internal Revenue Code--a program which came into being in 1986 for CBI countries at the initiative of the House of Representatives. Trinidad and Tobago joined other CBI countries and signed a Tax Information Exchange Agreement in order to access this important pool of investment capital in 1990. In the two and a half years following our eligibility, U.S. investors in collaboration with their Trinidadian counterparts started to use these funds in earnest borrowing over $300 million for important export oriented energy projects and for necessary infrastructure. The Section 936 program is not even ten years old and just when it is really starting to provide benefits to the region, its existence is threatened. Withdrawal of this sorely needed investment capital which allows CBI countries to pursue economic reforms that lead to growth sends mixed signals and confuses both governments and private sector operators. Such confusion has the potential to create a dangerous backlash of disinvestment, protectionism and instability. In fact, at this moment, even with our commitments under the TIEA intact, investment in CBI countries is stalled.

Similarly, as actual and potential investors weigh NAFTA benefits against those of the CBI the result again is deferment of investment decisions. We in the Caribbean are willing to persevere in our pursuit toward NAFTA accession but we need the evidence of constancy and predictability that H.R. 1403 would provide.

IMPACT ON PRIVATE SECTOR

The parity legislation will promote increased social responsibility in the private sector. In many of the debates on democratic development in various global fora, there has been frequent mention of the need to "responsibilize" various social actors so that they can more effectively fulfill civic duties and other social responsibilities. Previous policies implemented by many CBI countries, including Trinidad and Tobago were built on import-substitution and protectionism. Aside from the now evident inefficiencies inherent in these policies in an era of free trade development, the private sector became coddled, insular and dependent on government protection -- in other words non-responsive to both external and internal variables. With the reversal of these policies, we have witnessed a new independence in the vanguard companies of our region.

As the Caribbean private sector begins to understand the market created by the CBI as well as the potential of the EAI and the NAFTA and the strategic positioning necessary to take advantage of this larger and more open market, these companies are also beginning to cooperate creatively with the government's economic liberalization policies. In Trinidad and Tobago, we have seen increased efforts to contribute to human resource development through company sponsored training programs. There was a recent meeting of Caribbean companies to discuss closer cooperation in the philanthropic area--an effort that is bound to assist in regional governments' own efforts to create appropriate safety nets to ease social dislocations caused by economic reform. Consequently, there is a growing integration of commercial and social objectives emerging; this trend is one of the great promises of hemispheric integration. Environmental protection is included as one of the social objectives. The heavy dependence of many of CARICOM and CBI countries on tourism makes the development of environmentally sound growth policies a key criterion for businesses operating in the region.

By passing H.R. 1403 you will be helping Trinidad and Tobago and CARICOM to become the strong and credible hemispheric partners we aspire to be. In contrast, losing this opportunity could nullify the sacrifices of our population, destroy much of the hard work already undertaken and the achievements accomplished and weaken the positive political will that is crucial to our economic transformation. It would also impact negatively on both the short-term and the long-term economic benefits which the United States derives from the CBI.

I would like to conclude as I started by thanking Chairman Gibbons for creating this important forum so that we can discuss our partnership frankly and openly. It is this type of leadership that ultimately will help to fine tune the transition to a truly healthy economic zone for all the peoples in our hemisphere. Trinidad and Tobago applauds you for both your vision and your pragmatism.

Mr. NEAL [presiding]. Thank you very much, Ambassador McKnight, for your testimony.

Now I would like to acknowledge Mr. Eduardo Sperisen, who is the Vice Minister of Economy for the Government of Guatemala. Welcome.

STATEMENT OF EDUARDO SPERISEN, VICE MINISTER OF ECONOMY, GOVERNMENT OF GUATEMALA ON BEHALF OF THE ECONOMIC CENTRAL AMERICA AND PANAMA VICE MINISTERS

Mr. SPERISEN. Thank you, Mr. Chairman. I would like to thank the subcommittees for giving me the opportunity to participate in this hearing on H.R. 1403, the Caribbean Basin Free Trade Agreements Act, especially since I am not an American citizen.

I am appearing on behalf of my Central American and Panamanian colleagues. Accompanying me to this hearing are Vice Minister of Costa Rica, Mr. Gustavo Guiterez, and the Honduran Vice Minister, Manuel Elserra.

The Central American countries support NAFTA, since we will be able to sell to a dynamic and integrated market. NAFTA will provide a foundation for economic integration within the hemisphere.

However, to assure that NAFTA does not harm us, benefits available to Mexico, but not currently to our countries, must be added to the CBI.

In this regard, I would like to refer to Resolution NV–6 issued at the conclusion of the fifth meeting of the Central American Economic Cabinets held in Costa Rica on April 24, 1993. Twenty-eight ministerial level officials from the six countries of Central America and Panama resolved to support H.R. 1403 to prevent trade diversion from NAFTA.

Since its 1984 enactment, our countries have registered substantial increases in nontraditional exports. For its part, the United States has maintained the largest job-creating bilateral trade surplus on a per capita basis with the Caribbean Basin countries than with any other region in the world. U.S. exports to the region are increasing at the rate of three times faster than exports to the world as a whole, and the Caribbean Basin region is now the tenth largest market for U.S. exports.

The Department of Labor and the U.S. International Trade Commission, USITC, have repeatedly concluded that CBI has had little to no negative impact on U.S. labor. In fact, by encouraging coproduction between United States and the region, H.R. 1403 should actually boost employment in the United States.

The positive effects of CBI are not surprising when one takes into account that for every export dollar that we earn, 70 cents is returned to the United States in the form of purchases of U.S. goods and services. Much of our nontraditional exports base is dependent on U.S. inputs and capital goods, and this is unlikely to change, even with increased domestic investment.

The United States is also the major source of consumer products in our countries. By comparison, Asian countries, a much larger source of U.S. imports, spend in the United States usually less than 20 cents of every dollar earned in the United States.

CBI preferences have nurtured an independent business class, supportive of democracy and market orientations. For example, just about a month ago, the courageous action of the Guatemalan business sector helped assure that democracy will continue. The business sector was in a position to exert decisive strength as a result of recent growth induced by the preference programs and understanding of the economic devastation that will be caused if this preference were suspended.

In the near term, NAFTA could cause severe dislocation to our investment and in exports and undue gains in the CBI program. This is because some of most successful export products are apparel assembled in Central America from private from fabric formed and cut in the United States.

Under NAFTA, Mexico will receive immediate duty-free on these products, putting the Caribbean and the American firms invested at a significant disadvantage. Even though the products are loaded with U.S. content, this could disrupt the competitiveness not only of Central American businesses, but also U.S. firms supplying these companies or relying on production from them to compete against the Far East.

NAFTA will provide preferential access to Mexico over CBI and thereby stunt potential growth in certain nontextile products excluded from the CBI duty-free treatment such as footwear, handbags, and luggage.

We are also concerned about efforts to annul or otherwise limit duty-free treatment on these nontextile exclusions when produced from American components. It would be unfortunate, since Central America has the potential to be competitive and displace Far Eastern imports in the U.S. market.

We would also point out that given the role of agricultural producers in economic and political stability, apparel produced from our locally grown fibers should gain the same treatment as similar products from Mexico and that one should retain the bill's provision requiring monitoring and remedial action if NAFTA has an adverse effect on the Caribbean sugar production.

Over the last year, there has been strong and consistent movement in our nation's macroeconomic discipline and trade and investment liberalization. We realize that the future of our economies depends upon our ability to become world-class competitors. However, our ability to continue these reforms could be seriously undermined if we do not receive free access for our exports to the United States as proposed by H.R. 1403.

H.R. 1403 requires our countries to continue this liberalization, as well as to undertake environmental and labor obligations similar to those in the NAFTA side agreements. We do not find continued liberalization a problem, since we are committed to fully integrating our economies into a global market. We are also committed to improve labor and environmental conditions in Central America.

Each of our countries, either jointly or separately, have proposed free trade negotiations with the United States in the recent past. We did not receive a positive response, due to the perception that we are not ready to enter into such negotiations and the fact that other American priorities took precedence, including the need to complete NAFTA negotiations.

Our recent economic reforms and our commitment to continue such reforms should make it possible to enter and conclude such negotiations within a reasonable timeframe.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF EDUARDO SPERISEN
VICE MINISTER OF ECONOMY OF GUATEMALA
ON BEHALF OF THE
ECONOMIC VICE MINISTERS
OF CENTRAL AMERICA AND PANAMA
CONCERNING
H.R. 1403, THE "CARIBBEAN BASIN FREE TRADE AGREEMENTS ACT"
BEFORE THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE REPRESENTATIVES
JUNE 24, 1993

I am pleased to be able to present testimony supporting H.R. 1403, the "Caribbean Basin Free Trade Agreements Act," before the Subcommittee. I am appearing on behalf of my Central American and Panamanian colleagues some of whom are accompanying me to this hearing.

In this regard, I would like to refer to Resolution NV 6 issued at the conclusion of the Fifth Meeting of the Central American Economic Cabinets, held in Costa Rica on April 24, 1993. Twenty eight ministerial level officials from the six countries of Central America and Panama resolved to support H.R. 1403, both the provisions which would extend certain benefits to CBI countries and those paving the way for possible adherence to NAFTA or negotiation of similar agreements. The Ministers also expressed their appreciation to the co-sponsors of the bill, Chairmen Sam Gibbons, J.J. Pickle and Charles Rangel and Congressmen Phil Crane and Kweisi Mfume, and resolved to take initiatives as necessary to support its enactment. This hearing offers an excellent opportunity to follow through on that resolution.

Since its enactment in 1984, both the United States and beneficiary countries have benefitted from CBI. Our countries have registered substantial increases in non-traditional exports, a key objective of the program. For its part, the United States has maintained an increasing trade surplus with the region. In fact, the United States has maintained the largest job-creating bilateral trade surplus, on a per capita basis, with Caribbean Basin countries than with any other region in the world. U.S. exports to the region are increasing at a rate three times faster than exports to the world as a whole, and the Caribbean Basin region is now the tenth largest market for U.S. exports, ahead of Italy, Singapore, and other large trading countries.

We do not expect any adverse effect on U.S. employment from HR 1403. In fact, by encouraging coproduction between the U.S. and the region, the bill will boost employment in the United States. Most products from these countries already enter duty-free under CBI, and have had no adverse effect on U.S. jobs or industry. The Department of Labor and the United States International Trade Commission (USITC) have repeatedly concluded that CBI has had little to no negative impact on U.S. industry and labor. We expect this to continue if CBI countries are given NAFTA parity under HR 1403.

The positive effects of CBI are not surprising when one takes into account that, for every export dollar that we earn, 70 cents is returned to the United States in the form of purchases of U.S. goods and services. Much of our non-traditional export base is dependent on U.S. inputs and capital goods, and this is unlikely to change, even with increased investment. The United States is also the major source of consumer products in our countries. Hence, our prosperity can only increase these benefits to the United States. By comparison, Asian countries, a major source of U.S. imports, spend in the United States usually less than twenty cents of every export dollar earned in the United States.

Perhaps more important for our countries, CBI preferences have helped nurture an independent business class with close ties to the United States. It was the courageous action of this sector, combined with other sectors of Guatemalan society, that helped ensure the failure of the recent coup in my country. U.S. officials have publicly credited CBI trade preferences with exerting a major influence on the position of Guatemala's business class supporting ther contuation of the democratic system. .

Central American countries support the North American Free Trade Agreement and look forward to benefiting from the large market it will create as well as the foundation it is building for economic integration within the hemisphere. We have already largely achieved free trade in Central America and are rapidly moving to full regional economic integration. We have also entered into free trade talks with Mexico, Venezuela, and Colombia.

However, in the near term, NAFTA could cause severe dislocations in our investment programs and in export market and undo gains in the CBI program. This is because some of our most successful export products, most notably apparel, are not eligible for CBI duty free treatment and remain subject to quotas. However, under NAFTA, Mexican apparel meeting the strict origin rules will eventually be duty and quota free.

The Caribbean export which would be most severely harmed would be apparel assembled from fabric woven, formed and cut in the United States. At the moment, there are very liberal quantitative restrictions on these products whether assembly takes place in the Caribbean under the Guaranteed Access Levels (GALs) or in Mexico under the Special regime. Also, these textile products are subject to duty only on the non-U.S. value-added. These GAL products have been the fastest growing component of exports from the Caribbean and have been largely displacing third country imports in the United States market. Hence they help U.S. firms remain strong and internationally competitive, allowing them to continue to employ American workers.

In fact, seventy-seven percent of Caribbean Basin apparel exports to the U.S. are assembled, in whole or in part, from U.S. components. Most of these products are eligible for the Guaranteed Access Level program, described above. Under NAFTA, Mexico will receive immediate duty-free and quota-free treatment on these products, putting the Caribbean and the American firms invested there at a signficant disadvantage, even though the products are similar in terms of U.S. content. This could disrupt the competitiveness of U.S. firms that have used successful co-production operations in the region to combat third country imports. It is only equitable that American and Caribbean producers of textiles and apparel benefit from the same treatment as that provided under NAFTA.

We would also point out that, given the key role of agricultural producers in economic and political stability in our countries, apparel produced from our locally grown fibers should gain the same treatment as similar products from Mexico. We expect that quantities eligible for this treatment would be relatively small in comparison to American consumption, but would be of great importance to Central America's rural economy.

H.R. 1403 also provides eventual duty-free treatment for textiles produced from materials in short supply and for a limited amount for apparel produced from third country components required to complete product lines in the United States. Strict origin rules will insure that non-American and non-CBI suppliers do not illegally take advantage of these rules.

NAFTA also will phase-out duties for non-textile products which are exempted from duty-free treatment under CBI. Depending on the import sensitivity of the product, the phase out period can last up to fifteen years. Given existing production in our countries and export potential, particularly for footwear and certain handbags, luggage and flat goods, we would hope the same treatment can be extended to our products. The Caribbean share of the market for these products is infinitesimal, especially when compared to that of the Far East and experts expect that any increase in exports from the Caribbean will be small. However, our exports would displace U.S. imports from the Far East with products having significantly more American content.

In this regard, we are concerned about efforts to repeal existing provisions in CBI which allow duty-free treatment for footwear and other products, except textiles and apparel, that are assembled in the region from 100 percent American components.

We support provisions in H.R. 1403 requiring the President to monitor the effect, if any, of the NAFTA on CBI beneficiary country access to the U.S. sugar market and to take action or propose legislation, after appropriate consultation, if it is determined that NAFTA is or will likely have an adverse effect. Sugar remains an important foreign exchange earner and source of rural employment in our region and the security this provision offers against potential adverse effects is appreciated.

The bill also contains provisions allowing our countries to negotiate under fast track procedures accession to NAFTA or stand-alone free trade agreements. This authority will last for three years and its expiration will coincide with the expiration of the interim CBI parity benefits.

Our countries are willing to take up the challenge of negotiating and implementing such agreements. As under NAFTA, we understand that the agreements will provide time for both sides to phase in liberalization and allow adjustment to import competition.

Over the last decade, there has been a strong and consistent movement by our nations towards macroeconomic discipline and trade and investment liberalization. Much of this liberalization has been carried out unilaterally. We realize that the future of our economies depends upon our ability to become world class competitors. However, our ability to continue these reforms could be seriously undermined if we do not receive fair access for our exports to the United States, as proposed by H.R. 1403.

In Central America, average tariff levels against third country imports have fallen significantly to levels generally between five and twenty percent. Our countries have carried out significant structural reforms. Central American countries are committed to not only establishing free trade areas among ourselves but to negotiate free trade with Mexico by 1996.

H.R. 1403 requires our countries to undertake environmental and labor obligations similar to those in the NAFTA side agreements. We are already engaged in discussions in the labor area under existing preferential programs and foresee little problem in expanding these efforts to the environment as well. A strong North American region requires all countries to maintain acceptable standards in these areas.

We should also point out that each of our countries, either jointly or separately, have proposed free trade negotiations with the United States in the recent past. We did not receive a positive response due to the perception that we were not ready to enter into such negotiations and the fact that other American priorities took precedence, including the need to complete NAFTA negotiations. Our recent economic reforms and our commitment to continue such reforms should make it possible to conclude negotiations within a reasonable time frame.

I would be pleased to respond to any of your questions.

Chairman GIBBONS [presiding]. Thank you very much, Ambassadors.

Mr. Neal, do you have a question?

[No response.]

Chairman GIBBONS. Mr. Pickle, do you have questions?

Chairman PICKLE. Well, I regret that I had to go to the floor and did not get to hear your last statement, Mr. Ambassador Sperisen.

To all of you, I appreciate your testimony. It seemed like each one of you have testified that you would like to have 1403 passed, that it gives you parity with Mexico, and you think you are entitled to that.

More than that, in each of your statements that you have made, you have indicated that our exports have increased considerably, and that we are one of your major trading partners with us, the United States, and that the program has worked well in your own country.

So I am impressed with your overall attitude. I think you are reasonable in requesting 1403, because it is a positive assertion on our part that we want the CBI program to go forward positively on an equal playing field, and I think you are entitled to that.

That is one of the very reasons we held these hearings and have introduced the legislation, to be sure that you know our feelings with respect to the pending NAFTA.

I do not want to do anything to slow down NAFTA consideration, because I am very much in support of it. I do think, though, that there are certain adverse effects that could result to your area if NAFTA was approved and you were not given parity, as many of you have pointed out in your testimony.

So I think that is an affirmative position and understandable.

So I appreciate their testimony, Mr. Gibbons, but I think it has been very helpful to this hearing.

And I also want to say to you that, as I said earlier, it is my hope that our Government, the State Department, and the U.S. Trade Representative give a top priority to the consideration of this bill, 1403.

I hope they realize that this is very important. This is not a faraway problem in faraway countries. This is trade on a fair basis with our friends to the immediate south, and it is important that they give some consideration to it. It is not something they ought to put off when they have nothing else to do. They ought to give it a top priority, and I hope that we can do that, and I hope that we can arrange for another visit into your area either this fall or early next spring.

We had hoped that we might have done this around the Easter period, but there were too many conflicts, and we just could not work it. But we do have it in our planning program, and we hope that we can effectuate that sometime in the immediate months ahead.

So, Mr. Chairman, I thank you very much.

Chairman GIBBONS. Well, thank you. And I want to thank all of you for coming today and for helping us not only today, but all through the year and years with this program. It has a high priority with us. We know it has a high priority with you. We look forward to working with you.

Thank you.

All right. We will call next a delegation from Florida, and I will read them as they are presented here in the schedule: Representative Alzo Reddick, who is a State Representative; he is accompanied by Senator Hargrett from my own area; Richard Salem from my own area; and Charles Ransom, who is from the Commission on Florida International Governmental Affairs in the State Government in Florida in Tallahassee.

We also have John Birdsall, who is from the Tropical Shipping Co. from Riviera, Fla.

STATEMENT OF THE HONORABLE ALZO REDDICK, STATE REPRESENTATIVE, STATE OF FLORIDA; ACCOMPANIED BY THE HONORABLE JAMES HARGRETT, STATE SENATOR; RICHARD SALEM, ESQ., TAMPA, FLA.; FIAC, AND CHARLES RANSON, ESQ., TALLAHASSEE, FLA.

Mr. REDDICK. Mr. Chairman, with your permission, Senator Hargrett was going to handle the introductions for our panel.

Chairman GIBBONS. All right, fine, good. Mr. Hargrett.

Mr. HARGRETT. Good morning, Mr. Chairman.

Mr. Chairman, as one of your constituents, I want to congratulate you on your leadership.

Chairman GIBBONS. I am one of your constituents, too. [Laughter.]

Mr. HARGRETT. Thank you, Mr. Chairman.

I am Senator Jim Hargrett, Chairman of the Senate Committee on International Trade, Tourism, and Economic Development, and, Mr. Chairman and the members of the Trade Subcommittee, on behalf of the State of Florida, I would just like to describe the State of Florida from our perspective.

While we are attached geographically and politically to the most powerful economy in the world, we stick out in a neighborhood that is bounded on three sides by water, and we view ourselves as a Nation state for purposes of analysis. We are in a neighborhood with our Caribbean friends, and we value the trade and friendship and ties, cultural ties, that we have.

We appear before you today in support of H.R. 1403, a bill that would guarantee that the CBI beneficiary countries which have trade benefits will guarantee those benefits stay at least equal to those given Mexico under the terms of the NAFTA proposal. It would promote economic growth within the hemisphere and preserve the political and social harmony among and within the CBI beneficiary countries and further enhance the favorable U.S. balance of trade which exists within the region and avoid needless economic and social costs to the State of Florida.

Mr. Chairman, the panel today consists of myself, representing the Florida Senate. Joining me are Representative Alzo Reddick, who chairs the companion committee in the House, and the Florida International Affairs Commission: Charles Ranson, an attorney, and Richard Salem from Tampa, an attorney who specializes in corporate and international law.

Our written testimony will detail for the subcommittee the advantages which will flow from the enactment of H.R. 1403. It will

also detail the risks that we will face if H.R. 1403 fails of passage and if the NAFTA treaty is ratified.

Finally, it will describe the remarkable progress that has been made in terms of trading relationships between the United States, particularly Florida, and the region in the short life of the CBI program.

Mr. Chairman, we at the State level have entered into a partnership with the seaports around the State, 13 deep-water seaports. We have got a mission plan. We have made substantial investments in the north/south trade that has resulted from the CBI, and quite frankly we would hate to see those investments, those infrastructure investments, threatened if we do not have this parity.

What we, as representatives of the State of Florida, hope you will take away from this hearing is a lasting appreciation of the commitments we have made since 1984 to the principles of trade within the Caribbean and Central American area and an awareness that the failure to enact terms equalizing the trading relationship between the United States and its Mexican and Caribbean and Central American areas will jeopardize billions of dollars in existing trade, curtail planned infrastructure development in Florida and in the region by U.S. companies, and create a new wave of outmigration from the region, the vast majority of which will arrive on the shores of the State of Florida.

With that, Mr. Chairman, I would like to turn it over to Representative Reddick for his comments.

Chairman GIBBONS. Mr. Reddick.

Mr. REDDICK. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, for purposes of identification, the Florida International Affairs Commission consists of 27 members representing both public sector and private sector international programs. All geographic and economic sectors of our State are represented, including agriculture and citrus. It is chaired by the Governor and charged with the development and implementation of oversight of Florida's international relations.

Shortly after the basic text of the NAFTA treaty was initialed in the summer of 1992, FIAC, in recognition of its probable impact on the economic relationship between this country and more particularly our State regarding the beneficiary countries under the CBI program, unanimously called for an enactment of parallel provisions which would guarantee terms that at least equal those included in NAFTA to the CBI beneficiary countries.

H.R. 1403 accomplishes this end, while rightfully providing that additional trading reforms, such as in the area of intellectual property right protection, must be guaranteed by recipient nations if the benefits are to continue.

Mr. Chairman and members of the subcommittee, let me be very candid today. Should the NAFTA be ratified and should the terms of H.R. 1403 fail passage, the hard-won economic reforms of the 1980s to date as enacted in this region will be lost. The persistent trade surplus which this country now enjoys with the region, one of the few to which we can point, will evaporate. Billions of dollars in trade and tens of thousands of jobs in the State of Florida will be lost. An economic decline in the Caribbean and Central American regions will spur a renewed exodus of economic and perhaps

political refugees, the vast majority of whom will seek Florida as their new home.

As this talent drain occurs, the likelihood of economic viability of these nations will be severely marginalized.

The State of Florida will find itself overwhelmed by the influx of new populations, further eroding our ability to provide acceptable levels of basic services required in our complex society.

Mr. Chairman, in conclusion, and members of the committee, the State of Florida appreciates and salutes your leadership, along with your other colleagues—Congressman Pickle, Crane, Rangel, and others—in introducing this H.R. 1403.

We would not overestimate its importance, nor can we understate the significance of failure of its enactment. If, as we believe, the principal underlying development of the NAFTA is establishment of a liberalized hemispheric trading regime of which the NAFTA and Central America will inevitably be a part, then prudence requires that we sustain and reward the reforms which have occurred as a result of the Caribbean Basin Economic Recovery Act of 1984.

I thank you, Mr. Chairman, for your indulgence, and with that, we would be happy to respond to any questions. And I believe Attorney Ranson had a comment.

Chairman GIBBONS. Mr. Ranson.

Mr. RANSON. If I may, Mr. Chairman, thank you very much for convening these hearings.

I would like to make two points by way of oral statement. These are included in the written testimony which has been filed and that we ask be made a part of the record of these deliberations.

First, I would like to reiterate the statement made earlier today by Senator Graham concerning the balance of trade and remind the subcommittee that at the time of the implementation of the Caribbean Basin Economic Recovery Act, the United States was in a trade deficit position with the Caribbean Basin countries that amounted to some $2.6 billion.

Within 2 years after implementation of that Act, that deficit turned into a surplus, which has grown to exceed at times $2 billion. It is persistent; it is valuable to the trade posture of this country; it has been vital to the growth and economic development of the State of Florida.

Recently, international trade surpassed agriculture and tourism as the leading engine of Florida's economic force, and we have grown jobs as well as the export trade market from this. This needs to be preserved and protected.

Let me also, if I might, address very briefly the social impact on Florida which would come from failure to enact the provisions of 1403, should NAFTA go into effect.

I was astonished some months ago to read an article in Florida Trend, which is Florida's preeminent business publication. I was so taken by it that I confirmed the numbers independently. And just to give you an example of the impact that the Caribbean has and can have on the social structure of Florida, I would quote very briefly from that article entitled "The Untold Truth: It Gets Worse", an article addressing the severe fiscal problems which we face in Florida.

In that article, the author, Philip Longman, stated: "Who are Florida's new students", speaking about our publication education system? "In the past, they came typically from places like Ohio. Today, more and more come from places like Nicaragua and Haiti. Consider for example that a staggering 27 percent of total growth in pupil enrollment in public schools this fall is attributable to students qualifying for the English speakers of other languages program"—27 percent. "The number of students enrolled in this bilingual special education program has increased by 425 percent over the past 5 years, from 19,211 in fiscal year 1987–88 to 100,429 in fiscal year 1992–93."

"This has had a major budgetary impact because the cost of each ESOL student is about two-thirds higher than per capita cost of what the Department of Education calls base students—children who do not require any remedial or special education. The cost per base student in the fourth to eighth grades, for example, is $2,536 per year. The cost allocated to each ESOL student in the same grade under State spending formulas is $3,912."

The growth in the number of non-English-speaking students is not likely to be reversed. We are required to provide these programs. Our fear is and our experience tells us that if we adopt policies or pursue policies as a matter of Federal law that result in an influx ultimately of peoples from the region, those peoples are going to come to Florida. They are going to strain our ability to provide the level of services. We think that our focus should be on assuring opportunity for economic growth in the region, so that a talent drain does not occur and so that these countries can become and maintain viability in the region and in the world marketplace.

I thank you for the opportunity to make this comment, Mr. Chairman.

Chairman GIBBONS. Mr. Salem.

Mr. SALEM. Good morning, Mr. Chairman and friend and members of the committee. It is a privilege to appear before you today. And on behalf of the Office of the Governor, the Florida International Affairs Commission, we are very proud to be a part of these hearings and very proud to be a part of your efforts to pursue the development of trade and the stabilization of our relationships with the Caribbean Basin nations.

For the past several days, we have met with many of your colleagues in the House of Representatives, advancing and promoting the notion of H.R. 1403 and asking them to embrace our neighbors in the Caribbean, as we do, as trading partners and friends. We pledge our support to you and offer our assistance as H.R. 1403 moves toward passage. We would like to be of support; we would like to be of help. And on behalf of the entire commission, allow us to put ourselves at your service, call on us if we can be of help, and again we thank you for the time that you have allotted us and allowed us to present our testimony to you today in adopting and confirming the comments and statements that we have filed in your record and that have been made by the distinguished panelists—Representative Reddick, Senator Hargrett, and Mr. Ranson.

Again, let me thank you for allowing us to be here and pledge our support.

[The prepared statement follows:]

TESTIMONY OF
THE FLORIDA INTERNATIONAL AFFAIRS COMMISSION
BEFORE
THE TRADE SUBCOMMITTEE OF THE
U.S. HOUSE OF REPRESENTATIVES WAYS AND MEANS COMMITTEE
ADDRESSING HR 1403
DELIVERED JUNE 24, 1993

Mr. Chairman, members of the Subcommittee on Trade, representing the Florida International Affairs Commission, we are pleased to have the opportunity to come before you today to present this testimony voicing the strong support of the State of Florida for HR 1403 introduced for consideration in the 103rd Congress by Mr. Gibbons, and Congressmen Pickle, Crane and Rangel. Enactment of HR 1403 is not only vital to the political and economic interests of the 24 beneficiary states under the Caribbean Basin Economic Recovery Act, it is vital to the social and economic well being to the State of Florida.

The Florida International Affairs Commission is a twenty six member body created by the Florida Legislature to develop, coordinate, implement and oversee Florida's international affairs programs ranging from trade development to international education to consular affairs. Chaired by Governor Lawton Chiles, the Florida International Affairs Commission has voiced its unanimous support for legislation which will assure that CBI beneficiary countries have guaranteed trade status no less advantageous than that given Mexico pursuant to terms of the proposed North America Free Trade Agreement. As the policy-making arm of the State of Florida with regard to international affairs and as the unified voice of the State of Florida on international matters, we, as representatives of the state, are pleased to submit this testimony to the Trade Subcommittee of the U.S. House of Representatives Committee on Ways and Means.

The interest in this issue of the Florida International Affairs Commission dates to the initialing of the NAFTA draft Treaty by then President Bush, Prime Minister Mulroney and President Salinas in August of 1992. As the northern most state of the Caribbean region, we in Florida immediately recognized that trade preferences given to Mexico which were not matched contemporaneously by trade benefits given to the CBI beneficiary countries would have a devastating effect, not only on the economic well being and political stability of the Caribbean and Central American regions, but also on the economic and social stability and the political well being of the State of Florida.

If one recalls the state of affairs in the region prior to implementation of the Caribbean Basin Economic Recovery Act in 1984, one remembers a region beset by economic stagnation and political turmoil. With the present exception of Haiti, the region now reflects an environment of substantial political stability and moderate to strong economic growth. Admittedly, some countries in the region are doing far better than others and many are struggling to manage their transition from an agricultural base to economies which can survive, if not prosper, in the increasingly competitive global marketplace. As the state which has most often felt the brunt of unintended consequences of past U.S. policies directed to the region, manifest in terms of surges of population seeking to leave the region in search of economic opportunity or personal safety, Floridians are particularly sensitive to the impact of NAFTA ratification without parallel extension of benefits which would ensure no less than equal treatment to the Caribbean than that afforded Mexico.

On September 10, 1992, the Florida International Affairs Commission unanimously adopted its resolution, a copy of which is attached to this testimony, calling upon the Congress of the United States to act affirmatively to provide a safety net for the economies within the region and to avoid the renewal of population movements from the region to the United States. Our intuitive belief that failure to enact such legislation will result in

economic stagnation within the region has been confirmed by two studies, those performed by the Latin American and Caribbean Center at Florida International University ("Florida and the Caribbean Basin Countries in the 21st Century: Is Geography Destiny?" and by the United States International Trade Commission "Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States Mexican Relations", Number 332-282, pages 1-28). These studies conclude that trade diversion from the Caribbean and Central America to Mexico will occur if NAFTA is ratified without the extension of the benefits similar to those provided by HR 1403.

Within the last several years international trading activity has become the predominant force in the economy of the State of Florida, surpassing tourism and agriculture. In excess of $30 billion in international trade is consummated in or through the State of Florida on an annual basis. Of this, more than $7.5 billion in trade is directed to or derived from the Caribbean.

From a net trade deficit exceeding $2.5 billion in 1984, the year of implementation of the Caribbean Basin Economic Recovery Act, U.S. trade with the region reached a net surplus of $105.4 million by 1986 and continued to grow, reaching a high of $2.16 billion in 1989. 1991 (the most recent year for which figures are available) closed with a surplus of approximately $1.9 billion.

In 1991 U.S. exports to the region exceeded $10,170,000,000 (2.5% of total U.S. exports to the world) while imports from the region, representing 1.7% of worldwide imports, totaled $8.3 billion. The vast majority of this trading activity occurred with CBERA beneficiary countries.

For a host of reasons -- including geographic proximity, deep and broad cultural and ethnic integration and the advent and growth of co-production facilities, Florida's 1991 share of total U.S. exports to beneficiary countries under the CBERA amounted to 48.2% ($4,760,677,673). Our State's imports from CBI beneficiary countries, again as a percentage of the total imports, equalled 33.3% ($2,743,942,047).

Florida's net 1991 trade surplus with countries having designated beneficiary status under the CBERA exceeded $2.01 billion. In 1992, Florida's trade surplus with the CBI countries increased to $2.23 billion. Florida's growing positive trade balance with the region exceeds the overall U.S. trade surplus which exists with CBI beneficiary countries.

The persistent trade surplus with the Caribbean is one of the bright spots in seeking to establish a favorable balance of trade for the United States. Florida's role in maintaining this positive relationship cannot be underestimated and care should be taken to insure that national policy promotes its continued growth.

In addition, the maturation of coproduction operations between Florida and other states and the Caribbean assures the maintenance for jobs in the United States, particularly in the textile and apparel manufacturing industry, while at the same time growing new jobs within the region. Without this coproduction, thousands of United States jobs would be lost to lower labor costs of the Far East as producers situated in this hemisphere, and in the U.S. particularly, are displaced by lower cost fibers and labor of emerging economies.

Using standard measures of 20,000 jobs for every billion dollars of economic activity, as many as 90,000 jobs in Florida alone would be jeopardized by failure to enact the provisions of HR 1403 contemporaneous with ratification of the NAFTA Treaty. The majority of these jobs are located in the South Florida/Dade County area, an area which is struggling to recover from the devastation of Hurricane Andrew which occurred only ten months ago.

Reports of the United States International Trade Commission and by the Florida International University both conclude that NAFTA will promote the reorientation of investment from the Caribbean region to Mexico, confirming the fears of the State of Florida with regard to job loss. In addition, irrefutable proof exists that the movement of populations within the region in times of turmoil results in an inflow of population to Florida far greater than to any other region of the United States. The 1980's witnessed the mass exodus known as "the Mariel boat lift" in 1982-83, when as many as 150,000 Cubans migrated to establish residence in Florida at an unreimbursed cost to the State of Florida in excess of $150 million. Other recent examples are the periodic migration to Florida of Salvadorans, Panamanians, Nicaraguans and Haitians.

To put this in context, let me quote the September 1992 article published in Florida Trend, Florida's preeminent business publication, entitled "The Untold Truth-It Gets Worse," an article addressing the severe fiscal problems facing our state. At page 33 of that publication, author Philip Longman, addressing Florida's ability to educate its students, stated:

> Who are Florida's new students? In the past, they typically came from places like Ohio; today, more and more come from places like Nicaragua and Haiti. Consider for example that a staggering 27% of total growth in pupil enrollment this fall is attributable to students qualifying for the English speakers of other languages program. The number of students enrolled in this bilingual special education program has increased by 425% over the past five years; from 19,121 in fiscal year 1987-1988 to 100,429 in fiscal year 1992-1993.
>
> This has a major budgetary impact because the cost of each ESOL student is about two-thirds higher than the per capita cost of what the Department of Education calls "base students" - kids who don't require any remedial or special education. The cost per base student in the fourth to eighth grades, for example, is $2,536.98 this year. The cost allocated to each ESOL student in the same grade, under the state's education spending formulas, is $3,912.59.
>
> The growth in the numbers of non-English speaking students is not a trend that is likely to reverse itself, and it could well spike up at any time. ...A few wars in Central and South America during this decade could easily bring an explosion in the number of high cost kids. We can have 25,000 kids come into the ESOL program literally overnight.

In fact, we have experienced this overnight influx on more than one occasion.

Current federal law prohibits Florida from refusing provision of bilingual education and so we are in a position of not being able to reduce these mounting costs. It is anticipated that any effort to do by the State of Florida would result in the filing and granting of an injunction in a Federal Court in the State of Florida. Increasingly, as a result of the "new Federalism" of the 1980's education funding, and the funding of myriad other social service programs, is largely a state responsibility. The State of Florida urges Congressional sensitivity to the needs of the fourth largest state, and to its ability to absorb unreimbursed costs incurred through avoidable crises.

Taking the example of education and extrapolating it across the array of social services, it is clear that a federal policy which ignores the negative impact on the Caribbean and Central America of the North America Free Trade Agreement Treaty would have

devastating consequences for Florida's ability to provide the minimum level of education, health care, and other social services which are the norm in our society. Concomitantly, a federal policy which would bar the entry into the United States of such immigrant-status-seeking persons from the region would create political turmoil throughout the Caribbean and Central America and would endanger the physical security of the Gulf region of the United States.

Because we in Florida see the successful conclusion of North America Free Trade Agreement negotiations as part of an inexorable movement in the direction of hemispheric trade liberalization, we pose the question -- if the future portends a free trade area which encompasses our hemisphere, then why would we sacrifice the progress that has been made since 1984 in the Caribbean, when that region inevitably will be a part of the ultimate hemispheric trade scheme, only to require the expenditure of far greater and much more expensive dollars at some later date to rehabilitate economies unnecessarily sacrificed on the alter of oversight or short term political expediency?

The State of Florida, acting by and through its duly appointed International Affairs Commission, urges this Subcommittee, the full Committee, the Congress of the United States and the current administration to fully and unequivocally support HR 1403 as filed by Congressmen Gibbons, Pickle, Crane and Rangel. Thank you for the opportunity to submit these comments. We are prepared to respond to your questions.

Chairman GIBBONS. Fine, thank you.

Before we go to Ms. Frausto, I want to say to this fine group of Florida citizens—Senator Hargrett, Representative Reddick, Mr. Ranson, and Mr. Salem—how much I appreciate your taking time to come here to present the views that you have, the insight that you have.

It is heartening to understand or to know that the Government of Florida and the people of Florida have such an insight into what is going on south of them in the very close nations of the Caribbean.

I can say this because it is such a contrast to the attitude that existed some time ago in Florida when I was in the State Legislature. We hardly knew the Caribbean existed. I am glad to see that you all know it exist, know its importance, and are ready to expand Florida's opportunities in that area of the world.

Ms. Frausto.

STATEMENT OF JOHN H. BIRDSALL III, MEMBER, BOARD OF DIRECTORS, TROPICAL SHIPPING & CONSTRUCTION CO., LTD., RIVIERA BEACH, FLA., AS PRESENTED BY KAREN FRAUSTO, DIRECTOR OF GOVERNMENT AND PUBLIC AFFAIRS

Ms. FRAUSTO. Thank you, Mr. Chairman.

Good afternoon. And I might add that it is due in large part to your efforts that the State of Florida is much more aware of our southern neighbors.

My name is Karen Frausto, and as you can see, I am standing in for John Birdsall, vice chairman of Birdsall, Inc., of Riviera Beach, which is a U.S. corporation and its wholly owned Bahamian subsidiary, Tropical Shipping & Construction Co., Ltd.

Mr. Birdsall intended to testify here today because we feel strongly about the United States' economic stake in the Caribbean Basin.

However, another legislative matter also of great importance to the future prosperity of that region is being considered this morning by the Subcommittee on Select Revenue Measures, and he is now at that hearing.

Tropical Shipping is an American-owned common carrier. In 1992, our company alone carried U.S. exports worth nearly $1.1 billion to 23 Caribbean Basin countries. Having provided service to the Caribbean Basin for 30 years, Tropical has witnessed and participated in the expansion of commercial relationships between U.S. firms and the small, but growing, private sector of the Caribbean Basin.

Much of that growth has come in the years since this subcommittee first voted favorably on the Caribbean Basin Economic Recovery Act.

In our view, the underlying premise of the CBI's special trade access, has been critical to the economic development of the Caribbean over these last 8 years.

Accordingly, we support 1403, and we believe that notwithstanding the goals of North American free trade, we must protect the trade and investment fostered by the CBI.

Let me say that we do support NAFTA, but we feel that that agreement must not harm our ties to the Caribbean. Because we have seen how volatile trade is in today's global economy, we know that the competitive advantage offered by deep duty reductions can divert trade and investment from one supplier to another almost overnight.

In the products covered by 1403, the Caribbean Basin is at risk of losing to Mexico large amounts of trade and investment and in some of its most important manufacturing sectors. If that were to occur, we fear that it would inevitably mean that the region would go back to relying on aid, not trade, as the engine of economic growth.

One of the indirect benefits of the trade that we want to protect is the upgrading of ports and port services throughout the region. The growth in recent years of containerized cargo moving northbound has helped to fuel local investment in port infrastructure and trade-related services. Privatization of the ports may now be feasible because the northbound traffic has increased to levels that make new private investment economically practical.

With the help of H.R. 1403, United States/Caribbean trade will continue to expand, and more trade translates into demand for newer, more cost-efficient ships.

In conclusion, I mentioned earlier that Mr. Birdsall was at another hearing on a matter of importance to Caribbean Basin trade. That hearing has to do with taxation on U.S. owners for shipping income earned by controlled foreign corporations. This tax policy is the most onerous of any major maritime nation and has significantly disadvantaged the U.S.-owned international flag fleet serving the Caribbean Basin.

The U.S.-controlled fleet serving the Caribbean Basin has helped to establish critical commercial ties between U.S. exporters and the region's business sector. If foreign-owned carriers are the only ones serving this region, the attention and effort dedicated to building United States/Caribbean ties is surely going to decrease.

Mr. Chairman, I understand Congressman Jefferson and Congressman Shaw have made a proposal to reinstate the U.S. tax policy that was in effect before 1986. Their proposal would substantially improve our ability to augment our services to the Caribbean Basin and to foster more two-way trade, more U.S. exports, and a healthier Caribbean Basin economy.

So we hope that both H.R. 1403 and the Jefferson-Shaw proposals will win the support of the full committee and the Congress.

Thank you. I appreciate your indulgence, and we appreciate the opportunity to appear before you today.

[The prepared statement follows:]

TESTIMONY OF JOHN H. BIRDSALL, III
VICE CHAIRMAN OF BIRDSALL, INC.
OF RIVIERA BEACH, FLORIDA
AND ITS WHOLLY-OWNED SUBSIDIARY
TROPICAL SHIPPING AND CONSTRUCTION CO., LTD.

before the

SUBCOMMITTEE ON TRADE OF
THE COMMITTEE ON WAYS AND MEANS
JUNE 24, 1993

Chairman Gibbons, and Members of the Subcommittee, thank you for providing Birdsall, Inc. and its wholly-owned Bahamian subsidiary, Tropical Shipping and Construction Company, this opportunity to appear before the Subcommittee, and to present its views on H.R. 1403, the "Caribbean Basin Free Trade Agreements Act." This legislation would mandate that all CBI beneficiary countries will have as liberal treatment, with respect to tariffs and nontariff barriers (i.e. quotas) as Mexico, for imports into the United States of products which are not eligible for duty-free treatment under the Caribbean Basin Economic Recovery Act, as amended. It also authorizes the President (USTR) to enter into trade agreements with CBI beneficiary countries or groups of these countries, provided such agreements are "comparable to" the provisions of NAFTA and to the NAFTA supplemental agreements on labor, the environment, and import surges.

Tropical Shipping is an American-owned common carrier engaged in regular liner service carrying containerized cargo between Florida and 23 Caribbean Basin countries. In 1992, we carried $1.1 billion of U.S. exports to these countries.

We share with the other private sector witnesses, a major commercial stake in the continued growth in trade between the United States and Caribbean Basin countries. Ironically, our company is today submitting testimony to the Ways and Means Subcommittee on Select Revenue Measures regarding our country's taxation of the U.S. owners of international flag vessels engaged in foreign commerce. We are advising that Subcommittee that unless the reinvestment provisions of Subpart F are restored, we will be forced eventually to dispose of our company to foreign interests. So, we are appearing in Washington today not only to support legislation which will ensure the commercial security of the Caribbean Region, but also to alert the Congress that unless policymakers respond to our pleas regarding the tax law, we will, as Americans, be unable to participate in the carriage of the very trade that the "Caribbean Basin Free Trade Agreements Act" serves to promote.

With regard to H.R. 1403, we urge the full Committee to report favorably on the legislation. We believe that the Committee's consideration of this legislation at this time reflects a much-needed sensitivity to the plight of the Caribbean Basin on the eve of implementation of the North American Free Trade Agreement.

In the late 1970's we viewed the intent of the Carter Administration to foster growth in the Caribbean Region through trade, not aid, as a concept which should be readily endorsed by all those with commercial interests in the Region. It was our view then, and it remains our view now, that trade rather than outright aid remains the best policy for the U.S. to pursue with its Western Hemisphere neighbors.

However, NAFTA presents a grave concern. NAFTA has the potential of putting the Caribbean Basin countries at a competitive disadvantage vis à vis Mexican

exports on non-CBI eligible products; our concern is that this will propel a return to the reliance on aid, rather than trade, resulting in instability in the Region.

We feel a sense of urgency on this issue because our own experiences have shown us just how competitive the global marketplace is for all suppliers. Offering Mexican producers a competitive edge through preferred access under the North American Free Trade Agreement is definitely putting in jeopardy the production of comparable products in the Caribbean Basin.

Trade in these products is volatile, and contracting is more and more driven by a producers "quick response" to short-term market conditions. Placing an order today for many of these Mexican-made goods carries the promise of duty-free entry by January 1, 1994. The comparable product made in a CBI country would still be subject to MFN duty rates, averaging around eight percent if duty-relief under Tariff Item 98.02 is available. While some of the largest U.S.-based manufacturers may be in a position to ignore this stiff tariff discrimination, smaller firms are cost-driven, and are not going to risk bringing an uncompetitive product to market. The Caribbean Basin is therefore at risk of losing potential contracts in its most important manufacturing sectors.

Tropical Shipping has seen first-hand just how vital trade in sewn-goods and other manufactured goods is for this region. Employment and family incomes have risen in those countries which have been successful in assembly work. Governments have been given the opportunity to reduce their international debt and to undertake necessary economic reforms. While most of the CBI countries still have a trade deficit with the United States, the size of the imbalances has been reduced.

An important concern for transportation companies like Tropical are conditions at and around the ports in the Caribbean Basin. The growth in factory work in the Caribbean has helped to fuel local investment in port infrastructure, and stimulate U.S. exports to the Region.

There are major indirect benefits to CBI countries from their growing exports of manufactured products. The economies are generating legitimate jobs for far greater numbers of people. Children are staying in school longer, instead of being forced into the fields to help their families make ends meet.

We recognize, of course, that apparel assembly is not a panacea for all the economic and social ills of the Caribbean Basin. Yet, so much is happening to give hope to the countries participating in this trade, that it seems to us very short-sighted to put this trade at risk.

Where U.S. manufacturers depend on Caribbean Basin firms for simple assembly operations, it is worth noting that the final product usually contains a large percentage of U.S. components, as opposed to assembly in the Pacific Rim where the finished products contain little U.S. value-added. We believe the net effect of co-production on the U.S. employment picture is positive.

The outlook for U.S. exports is therefore particularly strong in this region. Over the past 5 years (1988-1992), U.S. exports worldwide were growing 7 percent annually. By comparison, in Latin America and the Caribbean--where U.S.-controlled shipping was carrying more than two thirds of the traffic--the growth rate was 11 percent annually. And manufactured exports grew by 20 percent annually over the period 1989-1992.

For example, we notice there are significant exports of U.S. made goods being purchased by the consumers in these countries. We've witnessed businesses moving from the Pacific Rim, setting up plants, and buying components for the plants from

U.S. suppliers. Once factories are operational, the factory workers then buy other goods from the U.S.--all this contributing to the continuing substantial growth in our exports to the Region.

Tropical Shipping sees H.R. 1403 as a sensible and safe means of protecting the gains of the enlightened policies of the Caribbean Basin Initiative. While we look forward to the day when the Caribbean Basin countries are in a position to enter into free trade agreements with the United States, or to accede to NAFTA, we think our immediate priority as a nation should be to avoid undermining the laudable progress that has been made toward democracy and self-sustained economic growth throughout the Caribbean Basin.

We therefore urge the Ways and Means Committee membership to report favorably on H.R. 1403, and for the Congress to pass this legislation as soon as possible.

Chairman GIBBONS. Thank you, Ms. Frausto. We are aware of the legislation you mentioned there, and it has my support. I would hope that we can do that.

I must tell you, though, we have a terrible time when we struggle with our tax legislation in that area. It does not have broad general support in the Congress.

You all heard those bells, and I regret that I have to go over and vote. I have first got to find out what I am voting on, so if you will give me a little extra time.

I do not have any further questions for you. I feel like you are all friends and neighbors, and I can grab the phone and call Alzo or Senator Hargrett or any of the rest of you any time. So I am going to have to leave now, and we would say that we appreciate your coming, and thank you for helping.

Mr. REDDICK. Thank you, Mr. Chairman.

Ms. FRAUSTO. Thank you.

Chairman GIBBONS. I would say to the future panels, as soon as I can get back from voting, we will go right to the next one, the Caribbean/Latin American Action Committee, Mr. Postal.

Then we will have to switch some people around: Mr. Woltz of the American Apparel Manufacturers Association and then the Association of American Chambers of Commerce for Latin America, Mr. Hirschmann, and the Guatemalan Association of Exporters of Non-Traditional Products, Mr. Botran.

[Recess.]

Chairman GIBBONS. We are ready to resume. Could the next panel come forward, please?

First will be Mr. Postal and then next Mr. Woltz and then next Mr. Hirschmann and then next Mr. Botran.

Mr. Postal.

STATEMENT OF ANDREW POSTAL, PRESIDENT, JUDY BOND, INC., NEW YORK, N.Y., ON BEHALF OF CARIBBEAN/LATIN AMERICAN ACTION

Mr. POSTAL. Thank you, Mr. Chairman.

My name is Andrew Postal. I am president of Judy Bond, Inc., which is an apparel producer in the United States with plants both in the United States and in the Caribbean Basin.

I am also appearing as a trustee of Caribbean/Latin American Action and as their chairman of their Apparel Task Force.

There is a prepared written statement on behalf of CLAA, which I would like to move into the record. I will spare you reading that statement.

Chairman GIBBONS. It will be under the general leave we have.

Mr. POSTAL. Thank you.

CLAA has supported NAFTA from the outset. At the same time, we have voiced considerable concern about the effects NAFTA could have on the beneficiary nations of the Caribbean Basin Initiative.

We applaud this committee's legislative attempts to set an equal playing field for the nations of the Caribbean Basin insofar as NAFTA is concerned, and we support those efforts.

Just as an American company who has become a coproducer during the 1980s, I thought I might give a little bit of framework from

the apparel sector's point of view as to what this particular legislation means to us and more broadly what it means to our industry.

During the 1980s, the U.S. Government encouraged the growth of nontraditional export items in the Caribbean Basin. Principal among those were apparel, footwear, rum, other products which were deemed to be a basis for the development of economic vitality of the region. This was supported not only by legislation but by trade initiatives including actions under MFA in terms of the management of quota, and those efforts, I think succeeded admirably.

The region has experienced tremendous growth in nontraditional exports, and I think everyone would agree that the benefits to the region and to the United States that were initially sought were achieved.

My company has faced over the last 10 years substantial competition from Asia, and it was by linking our U.S. plants with Caribbean plants that we were able to compete. Without those Caribbean plants, we would have no U.S. production. Our option would be to go to Asia and compete for U.S. market share.

It is certainly the case that the United States has lost manufacturing jobs over this period of time, but I would submit that it is not the Caribbean Basin Initiative that has given rise to that problem and, in fact, represents one of the only rational answers to competition from low-cost Pacific Rim nations.

We are, however, at a stage where the apparel industry is at the crossroads of two major trade initiatives which have dramatic potential consequences not only for the Caribbean nation producers, but also for the U.S. producers.

On the one hand, we are faced with the Uruguay round textile negotiations, which is part of much larger Uruguay round negotiations, and if that were to become law, the Pacific Rim would no longer be constrained by the MFA, and over 10 or 15 years, depending on what becomes the eventual deal period, we would be facing an unrestrained PRC, India, and Pakistan.

I submit that in the face of that, NAFTA becomes meaningless, as does the parity question, that an unrestrained PRC in apparel would be a force that virtually no one could compete with, and if you look at their experience in toys, footwear, and other industries where they have ceased to be quite so constrained, their market share in the United States has gone from a de minimis percentage to 50, 60, 70 percent of the U.S. market.

On the other hand, the region faces NAFTA, and I think there is a perception in the region that NAFTA may in many ways buffer the countries of this region, or at least Mexico, from some of the potential downside risk of the Uruguay round, and absent the Uruguay round, confer an absolute benefit on Mexico.

So it is against this context that many apparel firms at source, as well as firms in footwear and other industries that have gone to the Caribbean Basin as an attempt to become competitive, have basically taken a wait-and-see attitude as to where do we go from here.

I think the pace of investment has slowed to a trickle, as companies try to figure out what is going to be the trade policy of the United States and what its effect is going to be on U.S. firms.

I think that there is both the reality and the perception that NAFTA will confer a substantial benefit on Mexico, and to that extent, companies that have been encouraged to go to the Caribbean Basin by our Government, went to the Caribbean Basin, and have succeeded in the Caribbean Basin, are not faced with the possibility of a substantial competitive advantage in Mexico.

Those companies, at a minimum, are delaying any further investment, and quite frankly, many of them are contemplating disinvestment should NAFTA become a reality and no compensating legislation or other trade policy is put in place to equalize the competitive field between the Caribbean Basin nations and the Central American nations on the one hand and Mexico on the other.

We support NAFTA parity for a number of reasons. From a policy standpoint, we believe that a healthy growing economy in their region supports the process of democratization which our Government has actively sought in the region. Many of these democracies are fragile, and a downward turn in the economies of some of these countries would have a devastating effect on the political investment in democracy in the region.

As a result of the NAFTA process, many of the countries in the regions, as I think all of you have heard this morning and I think you will probably hear again, have taken many, many positive steps toward regional integration and liberalization of trade rules, liberalization of labor laws and so on, many of the things we would like to see happen in the region, and I think the process has been a very positive one and one to be encouraged.

We believe that the growth of the industry in the Caribbean Basin supports U.S. jobs. Certainly my company's experience has been that. And the loss of the Caribbean Basin as a base of manufacture probably would cost the United States many jobs both in the apparel industry and those industries that service it, including the textile industry.

And to a certain degree, the credibility of the U.S. Government is at stake, since many companies went to the Caribbean Basin in reliance upon initiatives from the U.S. Government, and I think to the extent that our Government is going to want to encourage private sector investment where it is deemed to be in our strategic interest, I suspect that you cannot encourage someone to go to a country one year, and 3 years later pull the rug out from under them.

We believe that the benefits that the CBI Initiative have afforded the region should be safeguarded in this NAFTA parity equation.

First, we would like to see the CBI program benefits remain intact until NAFTA benefits are phased in.

Second, for the apparel sector, we would like to see the gains the CBI countries have made in the apparel industry safeguarded during this process.

For industries such as the rum industry, the CBI countries should not have to sacrifice trade gains they have made as a precondition to gaining NAFTA benefits. Some of these countries have developed substantial rum industries, footwear industries, and Mexico will be afforded a tremendous competitive opportunity should those gains not be recognized.

We would be willing, Mr. Chairman, to submit a paper to the committee on the subjects of the rum industry and the footwear industry, industries which I am not currently engaged in the business of.

I think the arguments this morning that you have heard relative to section 222 and the footwear industry are similar arguments that we in the apparel industry have heard relative to conferring a benefit on the Caribbean Basin. But I would submit that you cannot discuss trade issues in a vacuum, and it is not a question of trying to put the horse back in the barn after it has already left; I think the issue at this point is that either U.S. firms can compete in the world market and in our market with world-class suppliers, with the benefit of a Caribbean component, or there will be no U.S. industry worth protecting.

Finally, CLAA suggests that the transition period for the NAFTA parity legislation be lengthened. We do this for two principal reasons.

One, in the case of investment in our industries, you are talking about capital projects. It is the rare capital project that can be put in place and the benefits of it realized in 3 years. Three years is not going to promote additional investment. It may prevent disinvestment. So we would argue that 5 years might be a more reasonable period of time.

Finally, we argue for a longer period of time in recognition of the fact that the nations of the Caribbean Basin are of different sizes and development. Some countries may be in a position to enter into a NAFTA-type agreement within a 3-year period and have taken sufficient steps and have a large enough economy that they have put themselves in a position to approach the U.S. Government and have those kinds of discussions.

Some countries are smaller and may take longer to reach the stage where they would be eligible for those kinds of discussions, and we think 5 years, as opposed to 3 years, might make more sense, given the disparity of the development of these different countries.

In conclusion, we very much support NAFTA parity as an intelligent approach to and in recognition of the fact that the trade polices of this country are in flux, that we are pursuing two different trade policies which are not necessarily consistent, as between the Uruguay round on the one hand and NAFTA on the other, but that the countries of the Caribbean and Central America will be caught in a crossfire, if you will, as will their American company trading partners if they are not protected by legislation such as this while it is all sorted out.

Thank you.

[The prepared statement follows:]

WRITTEN STATEMENT OF
CARIBBEAN/LATIN AMERICAN ACTION
BY ANDREW POSTAL
PRESIDENT, JUDY BOND, INC.

submitted to the

SUBCOMMITTEES ON TRADE AND OVERSIGHT
COMMITTEE ON WAYS AND MEANS
WASHINGTON, D.C.

JUNE 24, 1993

Chairmen Gibbons and Pickle, and Members of the Subcommittees, thank you for providing Caribbean/Latin American Action this opportunity to appear before the Subcommittee, and to present its views on **H.R. 1403**, the "Caribbean Basin Free Trade Agreements Act."

Let me begin by stating that the Trustees of Caribbean/Latin American Action (C/LAA) have agreed to give their full, unqualified support to the purposes of this legislation, and will be strong advocates for the passage of H.R. 1403, seeking the full implementation of its provisions no later than the date on which the related provisions of the North American Free Trade Agreement (NAFTA) become effective.

For the new members of these Subcommittees who have not been introduced to the organization I am here representing, let me explain that C/LAA is a non-profit organization qualifying under 501 (c)(3) of the Internal Revenue Code. Our overriding goal is to promote private-sector generated economic development--in the countries of the Caribbean Basin, in Mexico, and in the Caribbean Basin Rim States--Venezuela and Colombia. We pursue this goal by (a) stimulating trade and investment in these countries; (b) participating in the founding of self-sustaining private sector institutions dedicated to nation building; and (c) advocating the adoption of liberal trade and investment policies by and among these countries and by the United States.

More than two years ago, we appeared before the Subcommittee on Trade, to present our views on the prospective North American Free Trade Agreement. Our position then, and now, is that the business communities of the United States and the Caribbean Basin both will be best served by bringing into being a "single North American market," created under the terms of a comprehensive North American Free Trade Agreement, which would be open to membership by the Caribbean Basin nations.

Our earlier testimony also dealt with the question of the initial impact of NAFTA on the Caribbean Basin countries. We asked that the Congress and the Executive Branch take steps to insure that the special protections for the Caribbean Basin not be compromised by the onset of U.S.-Mexican free trade.

In our view, the provisions of H.R. 1403 are essential to meeting our goal of a fair and sensible transition from the preferential terms of the Caribbean Basin Initiative, to an adoption of the obligations of the North American Free Trade Agreement. Our organization believes that what Chairman Gibbons has referred to as "the special commitment" of the United States to the CBI beneficiary countries, guarantees that the United States will protect the favorable access it has unilaterally offered to the Caribbean Basin. It was precisely to make this commitment practicable that the CBERA was enacted. That legislation has protected specific duty-free benefits which might otherwise have been curtailed or suspended under the Generalized System of Preferences.

H.R. 1403 calls for minimal changes to U.S. duties and quotas, but those changes would protect the Caribbean Basin from the potential diversion of inward investment and trade in products that account for nearly one quarter of their total exports to the United States.

Until the mechanisms are in place for CBI countries to accede to NAFTA or negotiated comparable agreements with the United States and Mexico, measures are necessary to eliminate the substantial discrimination between NAFTA-qualifying goods, and CBI exports which are currently excluded from the CBERA.

C/LAA believes that NAFTA discrimination puts at risk the economic security of at least six of the largest Caribbean Basin beneficiary countries--Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Jamaica. In all of these countries, the sewn-products sectors (apparel, footwear, flat goods, luggage) have created more jobs, over a sustained period, than any other form of domestic economic activity. These are jobs in "co-production" facilities, where the raw materials are most often of U.S. origin, and where wage rates average 20 percent higher than in other domestic manufacturing facilities. Local revenues from these activities account for at least $1 billion dollars annually.

In a comment submitted on H.R. 1403, the American Apparel Manufacturers Association (AAMA) told this Committee that "Competition from Mexico {under NAFTA, and without parity} will force many local CBI and U.S. firms out of business or to move their investments from the CBI countries to Mexico. This because tariffs and quotas will have been eliminated on Mexican goods."

We ask the Committee to carefully consider these comments. The members of AAMA account for at least eighty percent of the apparel exported from the region to the United States and third countries. They are the largest remaining U.S. apparel manufacturers, and continue to produce **in the United States** quantities of apparel many times the size of the collective apparel exports of the Caribbean and Mexico combined.

Note as well the comments of the American Textile Manufacturers Institute, whose members supply the fabrics which are sewn into finished garments in the CBI. Companies like Forstmann, Burlington, and Guilford Mills, have seen their fabric exports to the region grow exponentially.

Absent the growth of the CBI garment industry under the co-production model, these U.S. exports would have never occurred. The

garments in question would have continued to be imported from the Far East--where U.S. fabrics are all but prohibited.

H.R. 1403 is very likely to expand U.S. export opportunities in other products as well. Earlier in this comment, we indicated that local revenues generated from the assembly and manufacture of apparel and other sewn-products exceeded the equivalent of $1 billion dollars annually. The Committee should carefully consider how these additions to CBI gross domestic product are likely to be spent.

In 1992, for the sixth consecutive year, the U.S. recorded a trade surplus with the Caribbean Basin beneficiary countries. On a per capita basis, we have a more impressive positive trade balance with the 23 CBI beneficiaries than with any other region in the World. The Caribbean Basin, with only a collective population of 48 million people--is our tenth largest export destination.

In documentation we have submitted for the permanent record ("State Exports to the Caribbean Basin, 1990-1992"), the Committee will note that in virtually every state, the growth of exports to the Caribbean Basin during the period 1990 to 1992, dwarfs the state's global export performance.

This growth is not solely attributable to textile fabrics. Computer hardware, food processing machinery, basic foodstuffs, transportation and telecommunications equipment--all figure prominently in accounting for these encouraging export gains for U.S. firms.

C/LAA sees further benefits to the United States from H.R. 1403.

This legislation will promote further economic reforms in the region. C/LAA's regional Trustees (who are representative of the private sector in every beneficiary country of the Caribbean Basin) have written to Committee members, indicating that the Caribbean Basin Initiative has been an important incentive to the adoption of structural reforms in their countries, to market-oriented development initiatives, privatization of economic activities, and to the opening of these economies to inward investment and increased trade.

For the private sector of the region, the trade concessions and commitments contained in the CBERA are like an anchor, that has firmly held their own Government's trade and investment policies to the guiding principles of the international trading system as embodied in the General Agreement on Tariffs and Trade, to the macroeconomic disciplines advocated by the International Monetary Fund, and to the structural reforms advocated by the Inter-American Development Bank, and the World Bank.

C/LAA is also pleased to be able to report to the Committee the considerable deepening and acceleration of the intra-regional efforts to form integrated markets, through the dismantling of trade and investment barriers, and the harmonization of other economic policy and practices. This includes the harmonization of labor codes, which will include employer obligations that are at least comparable to those mandated in the United States.

The recent pace of these efforts is directly linked to the democratization of the region as a whole. The triumph of the peace process

in Central America has the integration initiatives considerable new momentum. But we cannot yet be certain that these efforts, which are so critical to long-term self-sustained economic growth, will bare fruit.

The "Caribbean Basin Free Trade Agreements Act" will help the Caribbean Basin see their way to establishing integrated markets. By giving the Clinton Administration authority to conduct trade and investment negotiations comparable to those which resulted in the North American Free Trade Agreement, the Congress would be providing long-sought political reassurance to those groups in the region who are in the vanguard of the effort to build economies large enough to benefit from free trade agreements with larger trading partners. Were the President not authorized to negotiate with the region, those who are content with the status quo will be encouraged to continue their opposition to trade and investment liberalization, and broader intra-regional economic reforms.

C/LAA would like to suggest two areas where H.R. 1403 might be improved. First, it should be understood that the region encompasses 23 sovereign nations, which tend to group together by geography (island Caribbean nations, the Central American isthmus) and by language (English-speaking, Spanish-speaking). Their collective record of responding to U.S. interests is very positive, but individually, each nation or loose grouping has also taken into account its economic fragilities and the dangers of dismantling customs duties too quickly. We foresee a process in which countries will have to adjust at different speeds within a free trade regime. The relatively larger Central American countries may well move faster than the mini-economies of the Caribbean. C/LAA hopes the Committee will understand these differences and permit language that will recognize the validity of a longer period for implementing a comprehensive dismantling of barriers.

C/LAA cannot be certain that the emerging sub-regional economic units of the Caribbean Basin could complete negotiations with the United States by June 1, 1996. We therefore would recommend to the Committee that the legislation provide for an extension of this authority, in a manner comparable to the fast-track extension used in the course of negotiating NAFTA.

Second, C/LAA believes that "NAFTA parity," i.e. the tariff and nontariff barrier liberalization called for in Title I, should be granted for a period longer than three years. Senior officers of a number of firms in the apparel and leather-related product sectors have told us that future direct investment in CBI manufacturing would be jeopardized if the guarantee of "parity" were of such a limited duration. A minimum period of five years has been mentioned by these firms in discussing changes to the legislation.

Such a change in Title I might be coupled with additional discretionary authority whereby the President, after consultation with Congress, could limit or suspend some or all of these new CBERA benefits. One criteria for the President to examine in determining whether the benefits should be limited could be the progress being made in the dismantling of trade barriers, and other matters before the so-called "Trade and Investment Councils." These Councils provide a good indication of the seriousness of the countries toward the goal of establishing a single North American market.

Finally, C/LAA believes that it is especially important that the current

CBI program remain intact until NAFTA benefits are fully phased-in. This is particularly true with regard to CBI benefits for finished footwear provided under what was Section 222 of "CBI II." This provision was enacted in 1990 and permits preferential treatment only when the footwear is manufactured from U.S. materials or components.

Not only has this provision contributed to economic development in the Caribbean, it has also enhanced the ability of U.S. companies to compete against low-priced imports, particularly from China. Section 222 provides an important tool for U.S. footwear companies to begin winning back business which has been lost to Asian suppliers.

Moreover, because the footwear produced in the Caribbean must be made from U.S. components and materials, it creates additional jobs in the U.S., especially in shoe supply industry, that would not exist if that same footwear production were performed in the Far East.

To eliminate Section 222, or limit it now in any way, as some are suggesting, would only hurt U.S. footwear companies and their U.S. suppliers, while diminishing benefits under the CBI at a time of increased competition from Mexico, and other countries.

C/LAA thanks the Committee on Ways and Means for this opportunity to testify on H.R. 1403, and reiterates its support for this critical initiative of Chairman Gibbons and his colleagues, Mr. Pickle, Mr. Rangel, and Mr. Crane.

CARIBBEAN
LATIN AMERICAN ACTION

July 2, 1993

The Honorable Sam Gibbons
Chairman, Subcommittee on Trade
Committee on Ways and Means
Room 1136 Longworth House Office
U.S. House of Representatives
Washington, D.C. 20515

RE: H.R. 1403, The "Caribbean Basin Free Trade Agreements Act"

Dear Mr. Chairman:

This letter should be treated as a supplemental statement, for inclusion in the published record of the June 24 hearing on H.R. 1403, "The Caribbean Basin Free Trade Agreements Act" (hereinafter referred to as "the Act".) A written statement has already been filed by Caribbean/Latin American Action, and its witness at the hearing, Mr. Andrew Postal.

We draw the Subcommittees attention to the critical importance of additional U.S. policy measures which would shield certain Caribbean Basin exports from the detrimental effects of NAFTA tariff and nontariff preferences. We refer to such measures as "additional," because they are not contemplated by the Act, since the products in question already are eligible for duty-free treatment under the Caribbean Basin Economic Recovery Act, as amended (CBERA).

The most important Caribbean Basin export in this category is rum, a product for which the Caribbean Basin has long been the principal non-domestic supplier. The principal domestic suppliers of rum are Puerto Rico and the U.S. Virgin Islands, both of which are "co-beneficiaries" of the CBERA, in the sense that the CBI legislation seeks to build strong trade and investment linkages between these islands and the rest of the Caribbean Basin.

Rum is one of the products benefitting most from duty-free treatment under the CBERA. A number of the smaller Caribbean Basin countries, including Barbados, have been able to gain a tenuous foothold in the U.S. market for rum, in large part because the high U.S. tariff on rum is zero under the CBERA. The CBI countries' greatest success has been in sales of "bulk rum," which, because of its lower cost per gallon, receives the most competitive advantage from the specific duty still applied to all non-CBI exports.

All of these rum-producing areas are in danger of losing their share of the U.S. domestic market, in the face of competition from Mexican producers who have substantial natural advantages over their Caribbean Basin counterparts. Once the U.S. tariff on rum begins to be reduced for Mexican-origin products (i.e., under the NAFTA schedule signed by President Bush), Mexican rum producers will be enticed to penetrate the U.S. market.

It is doubtful that Mexican producers would give the Caribbean Basin the time necessary to adjust to new competition. Rather, their strategy would be to seek large segments of the U.S. domestic market through aggressive pricing and major advertising campaigns. In their home country, they have access to inexpensive raw materials and energy; environmental standards are lax and not well-enforced by the Government; and transportation costs to the United States are modest.

The setting would, under NAFTA, be ideal for a surge of rum exports from Mexico. This would create a U.S. market situation with which the Caribbean Basin could in no way cope. What could then be done to protect the Caribbean Basin rum exporters from serious injury? The current provisions of NAFTA on "emergency actions" are intended to deal with import-related "injury" to domestic firms--and would not address a surge of trade-diverting rum from Mexico.

We therefore recommend to the Subcommittee that it should ensure that any NAFTA supplemental agreement on import surges, as contemplated by the Clinton Administration, include a rum-specific mechanism which would automatically restore the protective MFN duty-rate on all imported Mexican rum in excess of an annual quantitative limit. Under this proposal, the duty phase-out schedule now contemplated by NAFTA would not change--but the potential for uncontrolled surges would be greatly reduced.

The Subcommittee is asked to refer to the "Comments Providing Views on H.R. 1403, The Caribbean Free Trade Agreements Act on Behalf of the West Indies Rum and Spirits Producers Association [and] The Government of the U.S. Virgin Islands," which appears in Committee Print WMCP: 103-16 (June 7, 1993), for further background on a "surge safeguard" for Caribbean Basin rum.

Remembering the Subcommittee's extraordinary efforts to make the Caribbean Basin Economic Recovery Act a catalyst for self-sustaining economic growth in this region, we ask that it now intervene to protect a major CBERA success story--the growth of Caribbean Basin rum exports to the United States.

Thank you for your consideration of our views.

Sincerely,

Peter Johnson
Executive Director

Chairman GIBBONS. Thank you, Mr. Postal. We will go next to Mr. Woltz.

STATEMENT OF WILLIAM K. WOLTZ, JR., CHAIRMAN, AMERICAN APPAREL MANUFACTURERS ASSOCIATION, AND PRESDIENT AND CHIEF EXECUTIVE OFFICER, PERRY MANUFACTURING CO., MOUNT AIRY, N.C.

Mr. WOLTZ. Thank you. My name is William K. Woltz, Jr. I am president and CEO of Perry Manufacturing Co. headquartered in Mount Airy, N.C.

We manufacture women's sportswear in our plants in North Carolina and Virginia, also in Costa Rica, El Salvador, and Honduras.

I am here today in my capacity as chairman of the American Apparel Manufacturers Association. The American Apparel Manufacturers Association is the central trade association of the U.S. apparel industry, representing two-thirds of the apparel produced and marketed in this country. The AAMA produces $41 billion worth of product at wholesale, employing more than 1 million Americans.

The AAMA supports the Caribbean Basin Free Trade Agreements Act and urges this committee to approve it. We are also in support of the North American Free Trade Agreement. We are not—and I repeat—we are not in the business to move jobs offshore; however, our industry must compete with low-wage imports which have taken over half of the U.S. markets in the last decade.

In order to compete with the low-wage countries, we have opened some production in Mexico and the Caribbean. This has given us lower average costs and makes us more competitive, allowing us to maintain large volumes of employment in the United States.

It is important to realize that the production that has moved south of the border was no longer viable in the United States. Without the incentives of 807 and hopefully NAFTA with CBI parity, that production would have gone to the Far East and will go to the Far East, where there will be little U.S. involvement in the manufacturing process.

Section 807 only became a factor in the United States in the 1980s when the low-wage apparel imports were allowed to explode in this country. Imports of apparel increased 202 percent from 1980 to 1990. By the end of the decade, we had lost more than one-half of the U.S. market to imports.

During that same period, the American apparel industry lost over 220,000 domestic jobs. This occurred while the domestic apparel market increased by 20 percent. This import expansion forced many U.S. manufacturers out of business and the others to explore options such as I have just delineated of 807 commingling production.

And despite the recent growth in 807 production, it needs to be kept in perspective. The total value of 807 imports in 1992 in our industry was $3.8 billion. While large, this figure represents less than the volume of any one of our largest domestic manufacturers. Even so, this $3.8 billion has been a boon to the economies of the countries where the production takes place. We think it is not incidental that the increase in 807 production and the jobs it provides

have come at a time when most of the countries involved have become legitimate democracies with relatively stable governments.

807 production has created thousands of stable jobs in Mexico and the Caribbean. We estimate that 15 apparel jobs in the United States are created by every 100 jobs in 807 production in other countries, and this is in addition to the many thousands of U.S. jobs it maintains in the textile, transportation, and other related industries, such as cardboard boxes, plastic hangers, recapped tires, computer components. The list is almost endless, the ripple effect of industrial production.

When NAFTA is established, wholly Mexican-made as well as apparel assembled in Mexico of U.S. fabric will enter our market quota-and duty-free; however, duties still will be charged on the value added to imports from the CBI countries.

If legislation is not passed to change this situation, the CBI countries will be at a great disadvantage vis-a-vis Mexico, and the progress of the United States has fostered in the Caribbean will in large part be reversed.

Competition from Mexico will force many local and U.S. firms out of business or to move their investments from the CBI countries to Mexico—this, because tariffs and quotas will have been eliminated on Mexican goods while they are still charged on 807 CBI countries.

We are pleased that H.R. 1403 embodies the apparel-related provisions of NAFTA. We also support the concept of a temporary grant of parity until the CBI countries accept the full obligations of broad free trade agreements.

In summary, the U.S. apparel industry has been hit hard by imports, but it remains a large, progressive, and vital segment of the U.S. manufacturing base. We still employ over 1 million American workers.

Finally, let me reemphasize that the apparel production moved to Central America and the Caribbean was no longer economically viable in the United States. It could have gone to the Far East with very little economic benefit to the United States. Instead it went to the CBI region, providing stability there, maintaining economic benefits in the United States, and making U.S. apparel companies stronger and world competitive.

Thank you.

Chairman GIBBONS. Thank you, Mr. Woltz. I understand that you have a travel schedule——

Mr. WOLTZ. I appreciate your——

Chairman GIBBONS [continuing]. And if you would wish to leave now, it is perfectly all right. We appreciate your testimony, and I hope that you will try to drive that home to the administration, too. I can tell you we are going to. But we need your help.

Mr. WOLTZ. Well, we certainly will. Thank you, sir.

Chairman GIBBONS. Thank you.

[The prepared statement follows:]

TESTIMONY OF WILLIAM K. WOLTZ, JR.
AMERICAN APPAREL MANUFACTURERS ASSOCIATION

Thank you. My name is William K. Woltz Jr. I am President and CEO of the Perry Manufacturing Company in Mt. Airy, N.C. We make women's sportswear in plants in Virginia and North Carolina and in Costa Rica and El Salvador. I am here today, however, in my capacity as Chairman of the American Apparel Manufacturers Association.

AAMA is the central trade association for the U.S. apparel industry, representing about two-thirds of U.S. production. Our members make everything from socks to caps, from underwear to shirts and sweaters, to overcoats. While the industry is large, most of the companies are relatively small. Three-fourths of our members have sales under $20 million and more than half have sales under $10 million.

The AAMA supports the Caribbean Basin Free Trade Agreements Act and urges this Committee to approve it.

We also are in support of the North American Free Trade Agreement (NAFTA). Supporting NAFTA and the idea of CBI parity was not an easy decision for us. We support the maintenance of a large and viable apparel manufacturing industry in the United States and we believe that can be accomplished within the context of NAFTA and CBI parity.

We are not in business to move jobs offshore. However, we must compete with low-wage imports which have taken over half of our market. In order to compete with them, we have opened some production to Mexico and the Caribbean. This gives us lower average costs and makes us more competitive, allowing us to maintain large volumes of employment in the United States.

There are other reasons for optimism about the future of apparel employment in the United States. Every year, AAMA surveys its members on their employment and pay practices and plans. Our recently completed 1993 survey indicates an optimism about the future.

Of those companies returning the survey, 3 percent indicated they expected an employment decline in 1993. Another 50 percent indicated they expected stable employment. Fully 46 percent said they expected to increase their domestic employment during the year.

Over the years, AAMA and others have made strenuous efforts to control the growth of imports. We have supported legislation to impose global quotas, we have participated in anti-dumping cases, we have argued loud and long for improvements in the import control program and we opposed inclusion of apparel in the Uruguay Round. Despite these efforts, imports, primarily from the Far East, have continued to increase.

It is important to realize that the production that has been moved south of the border was no longer viable in the United States. Without the incentives of Section 807 and hopefully NAFTA and CBI parity, that production would have gone to the Far East where there would be little U.S. involvement in the manufacturing process.

Section 807 has been available to U.S. apparel manufacturers since the Tariff Act of 1790. However, it really became a factor only in the 1980s when low-age apparel imports were allowed to explode. Imports of apparel increased 202 percent from 1980 to 1990.

During that period of time, we lost 219,000 domestic jobs and nine percent of our domestic production. This occurred while the domestic apparel market increased by 20 percent.

This import expansion forced U.S. manufacturers to explore options and the one many selected was production in Mexico and the Caribbean. In recent years, 807 imports have been growing more rapidly than regular imports and they now account for 14 percent of total imports.

Despite this recent growth, 807 production must be kept in perspective. The total value of 807 imports in 1992 was $3.8 billion. While large, this figure amounts to less than the volume of any one of our largest domestic manufacturers.

Imports of apparel from Mexico undoubtedly will increase after NAFTA and parity go into effect. But we do not expect the sort of wild expansion some opponents of NAFTA predict. We note that the International Trade Commission estimates that NAFTA will cause a short-term 45 percent increase in apparel imports from Mexico. That translates to an increase of only 1.6 percent in total imports. One would expect the Caribbean, after parity, to produce a similar result.

Even so, this $3.8 billion has been a boon to the economies of the countries where the production takes place. We think it not incidental that the increase in 807 production and the jobs it provides have come during a time when most of the countries involved became legitimate democracies with relatively stable governments.

To us, the concept of parity makes good foreign policy sense. It clearly is in the best interests of the United States to have stable, democratic governments in our hemisphere, and the jobs available in the apparel industry contribute considerably to that stability.

Further, we believe regional integration becomes even more important in light of similar activity in other parts of the world. The European Community certainly is striving to complete a regional trading bloc encompassing the EFTA countries, Eastern Europe and the southern rim of the Mediterranean. Japan is doing likewise in the Pacific.

807 production has created thousands of stable jobs in Mexico and the Caribbean. We estimate that 15 apparel jobs in the United States are created by every 100 jobs in 807 production in another country. This is in addition to the thousands of U.S. jobs it maintains in the textile, transportation and other industries.

Those thousands of jobs in the Caribbean, the related U.S. apparel jobs and the jobs in ancillary industries would not come to the United States if the Caribbean should be shut down. They would migrate to the Far East.

When NAFTA is established, wholly Mexican-made as well as apparel assembled in Mexico of U.S. fabric will enter our market quota and duty-free.

However, duties still will be charged on the value added to imports from the CBI countries. If legislation is not passed to change the situation, the CBI countries will be at a great disadvantage vis-a-vis Mexico, and the progress the United States has fostered in the Caribbean will, in large part, be reversed. Competition from Mexico will force many local and U.S. firms out of business or move their investments from the CBI countries to Mexico. This because tariffs and quotas will have been eliminated on Mexican goods.

We note that the International Trade Commission's study of NAFTA's effect on the Caribbean found that "a NAFTA will introduce incentives that will tend to favor apparel investment shifts from the (CBI) countries to Mexico."

Perhaps it would be helpful to describe the economic imbalances which will occur if NAFTA is approved, but not CBI parity. Under 807-A, a $10 garment usually has $6 in U.S. components and about $4 in value added by off-shore assembly. The duty is assessed on only the value added. That duty usually is about 20 percent, which on $4 would be 80 cents. With wholesale and r4etail markups, this translates to an added $3 on the retail cost of the garment.

With the elimination of tariffs under the NAFTA, this $3 cost no longer will be added to the price of a garment coming from Mexico. Couple this with the slightly easier and cheaper transportation between the U.S. and Mexico and Mexico has gained a significant advantage. Eight percent may not appear to be a significant saving, but the average profitability of an apparel firm in the United States is half that amount.

In March of 1992, our former Chairman, Michael Rothbaum, testified in favor of parity before the International Trade Commission. He spoke about his own company's experience with an operation in Honduras:

"Eighteen months ago, our company decided to move ahead with the construction of a new factory in La Ceiba, a city on the coast of Honduras. We already had a major facility in Honduras that employed approximately 800 people. At that time, we purchased a piece of land, started negotiations with a banking group for financing and commenced designing the facility.

"In the interim, we rented a building, hired more than 200 people, and began their training so that when the facility was complete, we could move this group of trained people in to use as the cadre on which we would build the population of this new factory to 600 workers.

"The recession in the United States forced us to postpone our plans for a year, and we froze the employment for this project at 250 workers. In the interim, the NAFTA initiative was introduced.

"While our business has improved and the added production from the new facility now is needed, the project remains on hold since the competitive analysis we performed dictating the site and country where the project should be built was no longer valid. Our new analysis shows us that if NAFTA is enacted with no corresponding benefit to Honduras, then Mexico should be the location for our new plant.

"Until it is clear to us that Honduras will enjoy the same competitive advantages that Mexico will under the NAFTA, the project will remain in limbo. If it appears that Honduras will not get this benefit or if the competitive pressures of business require that a decision must be made, we will most likely consider placing that facility in Mexico. In fact, our manufacturing people are studying Mexico as I speak.

"If we do choose to go to Mexico, the 200 jobs we have created in La Ceiba will disappear, since this population does not constitute a viable and economic production unit, and we will have to write off our investment there. Over time, as the costs we generate in Mexico become more competitive than those generated in Honduras, we will expand the Mexican facility, drawing from our original investment in Honduras in order to do so. Our Honduras operation will shrink, and will ultimately disappear.

"Speaking as a businessperson, it is critical for me to know if and when the CBI countries will be given parity with Mexico under NAFTA. Without that knowledge, projects like ours continue to languish, investments in the economies of CBI countries are stalled, and U.S. firms are being hurt competitively. And applying

our company's reaction to our industry, I am convinced that a NAFTA with Mexico without the same trading advantages to the CBI countries will bring about substantial disinvestment in apparel production in the Caribbean in no more than five to seven years."

Important as it may be, production in Mexico and the Caribbean is far from the only step our members are taking to lower their costs and improve their competitiveness. They are steadily improving their technology and striving to improve their responsiveness to their customers.

With the advent of electronic data interchange and its wide acceptance by our industry, we have been able to make "quick response" a reality. In many cases, we now can replenish a retailer's stock within days with detail down to size, style and color. This cuts costs and maximizes profit by reducing inventory, eliminating stock-outs and minimizing inventory-clearing sales.

Technological improvement has not been limited to speed of delivery. Although automation of a manufacturing process involving a limp, three dimensional product is difficult, we have been improving on it. Over the decade of the 1980s, the value of production for each domestic apparel worker increased from $27,690 to $40,268. Adjusted for inflation, this amounts to a 10 percent improvement.

Apparel also remains a bargain for consumers. During the 1980s, when the consumer price index increased by 59 percent, the wholesale price index for apparel grew by only 32 percent.

We would like to briefly describe our internal process in deciding to endorse NAFTA and to a description of NAFTA's requirements which we find beneficial to our interests.

We made the political judgement early on that the NAFTA agreement would be completed, would be approved by Congress and would go into effect at a relatively early date. We still believe that judgement to be correct.

Having made that judgement, our main concern was that the eventual agreement be made to serve the interests of the three parties involved and not those of parties located outside the hemisphere. Frankly, we did not want Mexico to be used as a staging ground for Far Eastern apparel manufacturers to continue their low-wage assault on the U.S. marketplace. This concern largely was met by the agreement on a yarn forward rule of origin.

At the outset of negotiations, we were concerned that a weak rule of origin would allow producers from other countries to set up shop in Mexico, using Far Eastern fabric and Mexican labor to increase their penetration of the U.S. apparel market. For that reason, we advocated a fabric forward rule of origin. Many of our colleagues in related industries supported a much more rigorous fiber forward rule of origin. We were able to compromise on a yarn forward rule, and we were pleased when the negotiators from the three countries accepted that formulation.

Our second concern was that the agreement be flexible enough to allow apparel manufacturers the freedom to operate efficiently and to use the widest range of raw materials. That concern largely was met by the inclusion of the Tariff Rate Quotas in the agreement, allowing limited use of non-complying fabric.

It is a fact that the textile industries of North America do not provide all the fabrics needed by U.S. apparel manufacturers. For that reason, it was important that the agreement contain reasonable latitude for American apparel manufacturers to use other fabric. That need was largely met by the inclusion in the agreement of two flexibility provision. The first exempted some fabrics --

mostly those used in men's shirts -- from the rule of origin. The second was the inclusion of the Tariff Rate Quotas.

We also were concerned that the agreement contain safeguard measures to allow unilateral action in the event of market disruption, and that it provide for Customs inspection of facilities in Mexico to guard against transshipments and other fraudulent practices. These provisions are contained in the agreement.

Having given a list of provisions we wanted in the final agreement, and having seen virtually all those provisions included, we decided to endorse NAFTA.

We also can support the concept of side agreements on workers' rights and the environment and a separate worker retraining program. Obviously, we would want to see the outcome of the new negotiations before endorsing their content.

We are pleased that H.R. 1403 embodies the apparel-related provisions of NAFTA. We also support the concept of a temporary grant of parity until the CBI countries accept the full obligations of broad free trade agreements.

In our written comment submitted to this Subcommittee in mid-March, we maintained that the three-year timetable to full free trade agreements is too brief, and we recommended a seven-year period. Our position was based on the idea that some of the CBI countries would have to make major changes in order to comply with all the NAFTA requirements. For some, it may not be accomplished within a three-year time frame. More directly to our interests, we maintained that it is difficult to ask a businessperson to make a major investment decision when the factors upon which that decision will be made may be drastically changed within a relatively short span of time.

In the time since that comment was submitted, others of our members have come forward in support of the three-year time frame. They are aggressive exporting companies who have a strong desire to open markets in the Caribbean and Central America to their products.

In light of the differences of opinion within our own organization, we will defer on the question of duration. We do, however, strongly support the concept that the countries of the region should enter into full free trade arrangements within a relatively short period of time.

In summary, while the industry has been hard hit by imports, it remains a large, progressive and vital segment of U.S. manufacturing. We still employ more than one million workers, and the value of our output is $41 billion at wholesale.

The U.S. government has accomplished in recent years what it set out to do in the Caribbean. By encouraging apparel companies to invest in the CBI countries, rather than other parts of the world, the U.S. and its apparel sector have contributed to the growth of this area and enhanced both political and economic security.

This has led to the establishment of stable democratic values and institutions fostering still more investment and sustained economic growth. The U.S. apparel industry's role in this remarkably successful effort cannot be denied since this industry has been the leader in the creation of new jobs in most of the CBI countries.

Let me see, the next is Mr. Hirschmann.

STATEMENT OF DAVID HIRSCHMANN, EXECUTIVE VICE PRESIDENT, ASSOCIATION OF AMERICAN CHAMBERS OF COMMERCE IN LATIN AMERICA

Mr. HIRSCHMANN. Mr. Chairman, thank you for the opportunity to testify on what we consider to be one of the most important pieces of legislation introduced in Congress this year. Timely approval of the Caribbean Basin Free Trade Agreements Act is a top legislative priority for the Association of American Chambers of Commerce in Latin America.

Mr. Chairman, we compliment you for drafting this legislation and congratulate you and the original cosponsors—Ranking Member Congressman Crane, Chairman Pickle, Chairman Rangel—for introducing legislation and holding these hearings. AACCLA strongly urges all members of Congress to join you in cosponsoring this legislation.

AACCLA is the umbrella organization for 22 American Chambers of Commerce in 20 nations throughout this hemisphere. Our American Chambers represent 16,500 companies and individuals dedicated to facilitating increased United States/Latin trade. Our members manage the bulk of American commerce in the region and are therefore the most knowledgeable executives on doing business there.

As the voice of American business working in the Caribbean Basin, AACCLA is well positioned to evaluate the effects of this legislation. AACCLA has member AmChams in nine CBI countries: Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, and Trinidad and Tobago. In fact, several of these AmChams have submitted individual statements supporting the legislation as well.

Mr. Chairman, the American business community active in Latin America sees no more important goal than fostering, sustaining, and making permanent the dramatic gains in market access and economic reforms that are currently underway throughout the region. Creating a Western Hemisphere community of democracies, linked by fair and open trade, is the best means of ensuring the continuity of those reforms and those gains.

This bill, H.R. 1403, the Caribbean Basin Free Trade Agreements Act, is the best path to ensure that the comparatively smaller economies of the Caribbean Basin are included in that community of free trade.

Two consecutive American Presidents, Republican George Bush and Democrat Bill Clinton, have strongly supported the vision of a Western Hemisphere united in fair and open trade. They have done so primarily because they have recognized that it is in our own overwhelming economic interest to do so.

Our exports to Latin America are growing more quickly than to any other region of the world. Given this, there can be no doubt that this legislation will further contribute to America's global economic competitiveness.

Even more important, we are facing a unique and historic opportunity to build the proposed Western Hemisphere Free Trade Area. The end of the Cold War, along with the wave of democratic and

economic reforms taking place from Mexico to Argentina, make this goal an urgent and realistic possibility. If we succeed in seizing this opportunity, it will be in large measure of thanks to the work done by these subcommittees.

In developing a strategy to forge a free trade area stretching from Alaska to Antarctica, we must not forget that the democratic gains and market reforms in the region are still very reversible. We must act now.

Throughout the region, perhaps even in Mexico, the political difficulties associated with opening economies are targets of opportunity for populist protectionist politicians who pledge to reverse these tremendous gains. This is certainly not a threat we are entirely immune from ourselves, based on the recent NAFTA debate.

President Clinton has indicated that he intends to seek fast track authority later this year to begin bilateral or multilateral free trade negotiations with Latin American nations that are already well advanced toward the path of market economies. Chile and Argentina stand out as examples.

When this request is made, AACCLA will strongly encourage the Congress to grant the President this negotiating authority.

Still left unanswered, however, is how to proceed with the comparatively smaller economies of the Caribbean Basin. We believe that H.R. 1403 is the path toward meeting that challenge. While implementing structural market-oriented reforms is never easy, it is even more difficult to do so in countries where a relatively small number of protected industries have historically represented a large percentage of the available employment opportunities.

As the nations of the Caribbean Basin move to advance the reforms which will further open their economies, guarantee intellectual property rights, and undergo other market reform measures that will prepare them to negotiate free trade agreements, they must not further be hampered by a potential investment diversion that is an unintended consequence of the NAFTA.

We are confident that H.R. 1403 will successfully counter this investment diversion and allow our neighbors in the Caribbean Basin to continue down the path toward fully reciprocal and open trade relationships with the United States.

This legislation recognizes that the ultimate answer to the investment diversion issue lies in the economic and political reforms that each nation in the region must continue to make.

By expanding the CBI to provide the nations of the region with short-term NAFTA parity and linking these transitional benefits to a fast track negotiating authority, this legislation provides the avenue for those nations to meet the challenge raised by both Presidents Bush and Clinton.

While strongly supporting a clear expiration date for this legislation, we are not, however, unsympathetic to suggestions that the transitional NAFTA parity period suggested of 3 years may prove to be too short in some cases.

We have outlined in our previous statements and in this testimony four reasons that we believe the CBI is important. First, the Caribbean Basin Free Trade Agreements Act will encourage continued economic liberalization in the region. If countries in the region join NAFTA or enter into similar bilateral arrangements with the

United States, they will have to accede to the strict NAFTA rules on services, investment, government procurement, and intellectual property rights—areas where many of the countries now have significant barriers still in place. Countries in the region would also be expected to match the environmental and labor rights obligations currently being negotiated by USTR Mickey Kantor with his Canadian and Mexican counterparts. Second, the Caribbean Basin Free Trade Agreements Act promotes U.S. exports by protecting Caribbean Basin foreign exchange earnings.

We have heard a lot today about the trade surplus that the United States enjoys with the region. Exports in 1992 to the region totalled $11.3 billion, making the region the United States' tenth largest export market, ahead of such trading superpowers as Singapore and Italy. Given the Commerce Department's estimate that 19,000 U.S. jobs are created by every billion dollars in U.S. exports, at least 214,000 U.S. jobs are currently dependent upon Caribbean Basin exports.

In 1992, the United States enjoyed a $1.7 billion trade surplus with the region. Excluding oil, countries of the region purchased more than 70 percent of their imports from the United States. Thus, even though CBI has not been a reciprocal program, the United States has proved to be a major beneficiary of the program.

H.R. 1403 will further entrench and strengthen the American competitive position in CBI markets if it results in the negotiation of free trade agreements with the countries of the region.

Three, the Caribbean Basin Free Trade Agreements Act protects the interests of the U.S. business in the region, especially in the apparel industry. Many U.S. companies have invested in the region in order to be able to compete with low-cost Asian apparel manufacturers, while still maintaining important and complementary production facilities in the United States.

Failure to provide NAFTA-like access for the Caribbean nations would punish U.S. businesses who have taken the risks and invested in the Caribbean Basin. A more generous NAFTA provision may freeze investment in the region or even lead to disinvestment. H.R. 1403 will prevent such dislocation from occurring and protect the interests of U.S. businesses and American workers who rely on the region. Four, the Caribbean Basin Free Trade Agreements Act is consistent with President Clinton's goal of strengthening democracy and promoting social justice. In the Caribbean Basin, as elsewhere, job creation is important in achieving those goals.

Since 1983, the countries of the region have made dramatic strides toward both liberalization of their markets and changes in their political systems. With the notable and tragic exception of Haiti, all countries in the region now have popularly elected governments. Civil wars have ended in El Salvador and Nicaragua, and the long conflict in Guatemala is showing hopeful signs of finishing. Dictators in Grenada, Nicaragua, and Panama have been ousted.

The CBI-strengthened economies have given the democratic governments in the region added legitimacy. The economic opportunities provided under H.R. 1403 will only strengthen the democratic institutions as opportunities spread to more and more people in those countries.

Mr. Chairman, we thank you for this opportunity to share our views on this important legislation and look forward to working with you and your cosponsors to seek its timely approval by the Congress.

[The prepared statement follows:]

STATEMENT OF DAVID HIRSCHMANN, ON H.R. 1403
THE "CARIBBEAN BASIN FREE TRADE AGREEMENTS ACT"

Mr. Chairman, thank you for the opportunity to testify on what we consider to be one of the most important pieces of legislation introduced in Congress this year. Timely approval of H.R. 1403, the "Caribbean Basin Free Trade Agreements Act" is a top legislative priority for the Association of American Chambers of Commerce in Latin America (AACCLA). Mr. Chairman, we compliment you for drafting this legislation, and congratulate you and the original co-sponsors, Ranking Member Philip M. Crane, Chairman J.J. Pickle, and Chairman Charles B. Rangel, for introducing this legislation and holding these hearings. AACCLA strongly urges all Members of Congress to join you in sponsoring this legislation.

Founded in 1967, AACCLA advocates trade and investment between the United States and the countries of the region through free trade, free markets, and free enterprise. AACCLA is the umbrella organization for 22 American Chambers of Commerce (AmChams) in 20 nations throughout Latin America. Our AmChams represent over 16,500 companies and individuals dedicated to facilitating increased U.S. - Latin trade. Our members manage the bulk of American commerce in the region, and are therefore the most knowledgeable executives on doing business there. AACCLA is an unmatched resource for American business looking to become more active in trading with the nations of Latin America.

As the voice of American business working in the Caribbean Basin, AACCLA is well positioned to evaluate the effect of H.R. 1403. AACCLA has member AmChams in nine CBI countries: Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama and Trinidad and Tobago.

Mr. Chairman, for the American business community active in Latin America there is no goal more important than fostering, sustaining and making permanent the dramatic gains in market access and economic reform that are underway throughout the region. Creating a Western Hemisphere community of democracies, linked by fair and open trade, is the best means of ensuring the continuity of these gains. This bill, H.R. 1403, the "Caribbean Basin Free Trade Agreements Act" is the best path to ensure that the comparatively smaller economies of the Caribbean Basin are included in that community of free trade.

Two consecutive American Presidents, Republican George Bush and Democrat Bill Clinton, have strongly supported the vision of a Western Hemisphere united in fair and open trade. They have done so primarily because they have recognized that it is in our overwhelming economic interest to do so. Our exports to Latin America are growing more quickly than to any other region of the World. Given this, there can be no doubt that this legislation will further contribute to America's global economic competitiveness.

Even more important, we are facing an unique and historic opportunity to build the proposed Western Hemisphere Free Trade Area. The end of the Cold War along with the wave of democratic and economic reforms, from Mexico to Argentina, make this goal an urgent and realistic possibility. If we succeed in seizing this opportunity, it will in large measure thanks to the work done by this subcommittee.

In developing a strategy to forge a free trade area stretching from Alaska to Antarctica, we must not forget that the democratic gains and market reforms in the region are still reversible. We must act now. Throughout the region, perhaps even in Mexico, the political difficulties associated with opening economies are targets of opportunity for populist protectionist politicians who pledge to reverse these tremendous gains. This is a threat we are not entirely immune from ourselves.

President Clinton has indicated that he intends to seek fast track authority later this year to begin bilateral or multilateral free trade negotiations with Latin American nations that are already well advanced along the path toward market economics; Chile and Argentina stand out as examples. When this request is made, AACCLA will strongly

encourage the Congress to grant the President this negotiating authority. Still unanswered, however, is how to proceed with the comparatively smaller economies of the Caribbean Basin. We believe that H.R. 1403 is the path toward meeting this challenge.

While implementing structural market-oriented economic reforms is never easy, it is even more difficult to do so in countries where a relatively small number of protected industries have historically represented a large percentage of the available employment opportunities. As the nations of the Caribbean Basin move to advance the reforms which will further open their economies, guarantee intellectual property rights and undergo other market reform measures that will prepare them to negotiate free trade agreements, they must not be further hampered by a potential investment diversion that is an unintended consequence of the NAFTA.

Mr. Chairman, we are confident that H.R. 1403 will successfully counter this investment diversion and allow our neighbors in the Caribbean Basin to continue down the path toward fully reciprocal and open trade relationships with the United States. By expanding the CBI to provide the nations of the region with short term NAFTA parity, and linking these transitional benefits with fast-track negotiating authority, this legislation provides the avenue for these nations to meet the challenge raised by Presidents Bush and Clinton. While strongly supporting a clear expiration date for the legislation, we are not unsympathetic to suggestions that the transitional NAFTA parity period of three years proposed in the legislation may prove to be too short in some cases.

Mr. Chairman, AACCLA has endorsed this legislation for four reasons:

1) As mentioned above, the "Caribbean Basin Free Trade Agreements Act" will encourage continued economic liberalization in the region. The Act encourages CBI beneficiaries to either accede to the NAFTA or to negotiate separate, reciprocal free trade agreements with the United States by limiting the time frame of NAFTA parity. This time limit will encourage those countries that wish to participate in expanding hemispheric regional arrangements to accelerate the already dramatic liberalization which has taken place since the CBERA originally went into force in 1983. If countries in the region join NAFTA or enter into similar bilateral arrangements with the United States, they will have to accede to the strict NAFTA rules on services, investment, government procurement and intellectual property rights--areas where many of the countries now have significant barriers in place. Countries in the region would also be expected to match the environmental and labor rights obligations currently being negotiated by United States Trade Representative Mickey Kantor and his Mexican and Canadian counterparts.

2) The "Caribbean Basin Free Trade Agreements Act" promotes U.S. exports by protecting Caribbean Basin foreign exchange earnings. The Caribbean Basin has historically been an important market for U.S. products. In 1992, U.S. exports to the region totalled $11.3 billion, making the region the United States' 10th largest export market, ahead of such trading powers as Singapore and Italy. Given the Commerce Department's estimate that 19,000 U.S. jobs are created by $1 billion in U.S. exports, at least 214,000 U.S. jobs are dependent on Caribbean Basin exports.

   In 1992, the U.S. enjoyed a $1.7 billion trade surplus with the region. Excluding oil, countries in the region purchase more than 70 percent of their imports from the United States. Thus, even though CBI has been a non-reciprocal program, the U.S. has proven to be a major beneficiary of the program. H.R. 1403 will further entrench and strengthen the American competitive position in CBI markets if it results in the negotiation of free trade agreements with the countries of the region.

3) The "Caribbean Basin Free Trade Agreements Act" protects the interests of U.S. business in the region, especially in the apparel industry. Many U.S. companies have invested in the region in order to be able to compete with low-cost Asian apparel manufacturers while still maintaining important and complimentary production

facilities in the United States. Failure to provide NAFTA-like access for Caribbean nations would punish U.S. businesses who took the risk and invested in the Caribbean Basin. The more generous NAFTA provisions may freeze investment in the region or even lead to disinvestment. H.R. 1403 will prevent such dislocation from occurring and protect the interests of U.S. businesses and American workers who rely on the region.

4) The "Caribbean Basin Free Trade Agreements Act" is consistent with President Clinton's goal of strengthening democracy and promoting social justice. In the Caribbean Basin, as elsewhere, job creation is important in achieving these goals. Since 1983, the countries in the region have made dramatic strides toward both the liberalization of their markets and their political systems. With the notable and tragic exception of Haiti, all countries in the region now have popularly elected governments. Civil wars have ended in El Salvador and Nicaragua, and the long conflict in Guatemala is showing hopeful signs of finishing. Dictators in Grenada, Nicaragua, and Panama have been ousted. The CBI-strengthened economies have given the democratic governments in the region added legitimacy. The economic opportunities provided under H.R. 1403 will only strengthen democratic institutions, as opportunities spread to more people in these countries.

Mr. Chairman, we thank you for this opportunity to share our views of this important legislation and look forward to working with you and your co-sponsors to seek its timely approval by the Congress.

Chairman GIBBONS. Thank you, sir.
Mr. Botran.

STATEMENT OF JUAN SANCHEZ BOTRAN, PRESIDENT, GUATEMALAN ASSOCIATION OF EXPORTERS OF NON-TRADITIONAL PRODUCTS

Mr. SANCHEZ BOTRAN. Good afternoon, Mr. Chairman and members of the subcommittee. My name is Juan Sanchez, and I am president of the Guatemalan Association of Exports of Non-Traditional Products.

We are a private nonprofit organization which promotes the exportation of industrial and manufactured products including textiles, apparel, footwear, and leather goods.

Mr. Chairman, I am very pleased to address your subcommittee on H.R. 1403, legislation to ensure that the CBI is not adversely affected by the implementation of the North American Free Trade Agreement. My testimony today will focus on the economic implications on our country of H.R. 1403 or the NAFTA Parity Bill, as it has become known.

Seven years ago, encouraged by CBI legislation which originated in your subcommittee, governmental and private sectors of Guatemala made a conscious decision to move our country toward greater participation in the global economy. The inward-looking economic policies we had been following up to that point had brought only limited growth and prosperity to our country.

Since the enactment of CBI, Guatemalan exports to the United States have nearly doubled. Today, exports to the United States are worth more than $1 billion per year. This growth is in large part due to our country's competitiveness with other similarly situated Latin and Central American countries.

The NAFTA threatens to reduce this competitiveness by giving Mexico preferential access to the United States for certain commodities excluded from duty-free treatment under CBI. It is critical for the continued competitiveness of our industries that we continue to compete on a level playing field with Mexico.

The NAFTA Parity Bill would ensure Guatemala's competitiveness until such time that we can be fully integrated into NAFTA or our own free trade agreement with the United States can be negotiated.

An example of a sector which would be adversely affected if NAFTA parity is not extended is textiles and apparel. This dynamic sector has contributed immensely to Guatemala's economy by generating more than 75,000 jobs and improving the technical skills and productivity of its workers and the quality of its products.

Despite its success, the textile and apparel business is vulnerable to outside factors such as campaigns against U.S. imports of our products by U.S. organized labor and the limited growth rate of those articles that are subject to U.S. quotas. Further limits on this sector's exports, as would result by the enactment of NAFTA without parity legislation for CBI countries, would directly affect one of Guatemala's biggest and most advanced industrial sectors.

As the representative for textiles and other growing private business sectors in Guatemala, I urge this subcommittee to support the adoption of the NAFTA Parity Bill.

A sound business sector which would be strengthened by the NAFTA Parity Bill is critical to Guatemala's continued economic growth and sustainment of democracy.

As your press correctly reported, Guatemala's private sector played an essential role in restoring constitutional government to our country earlier this month. Additionally, the business sector has promoted statutory changes in the areas of labor, environment, and intellectual property with an eye toward creating internal conditions that will allow for rapid integration into the global economy.

Guatemala has already adopted legislation to improve employer/worker relations and is a leader among the Central American countries in compliance with environmental protection and improvement measures. A cable law was recently passed to address one of the most sensitive intellectual property issues, while other changes are currently being considered to bring Guatemala's intellectual property protection laws in line with the technological advances being made worldwide.

As a part of Guatemala's integration into the global economy, we strongly support the efforts of our Government to negotiate free trade agreements with Mexico, Venezuela, and Colombia, as well as ongoing efforts to further integrate the Central American economies. We realize that not all existing Guatemalan business will benefit from such integration efforts, not to mention the possible integration into NAFTA, but we strongly believe that such policies will provide the brightest future for our country and our citizens.

We are sensitive to the fact that U.S. industries is concerned about the effect that the NAFTA Parity Bill would have on the U.S. economy. Similar concerns were voiced when the CBI legislation was originally being considered; however, CBI has proven beneficial to U.S. industries and workers, as well as ours.

For example, U.S. exports to Guatemala have tripled since CBI was enacted. Recent reductions in our tariff schedule in favor of U.S. exports will encourage further that growth.

Moreover, where our exports to the United States are largely labor-intensive, low-wage products, U.S. exports to Guatemala are largely higher-wage value-added products. Our textile and other exports have actually created manufacturing jobs in the United States. Furthermore, Guatemala's industry has sought to capture low-wage jobs from Asian countries which secure only 10 percent of their imports from the United States, rather than to target U.S. business sectors.

Frankly, we believe it is clearly in the United States self-interest to also do what it can to help those jobs move from the Asian countries to CBI countries, such as Guatemala, which secure about 60 percent of their imports from the United States.

As the hemisphere country just south of Mexico, many of our poorer citizens continued to join their Mexican neighbors in moving north to what they see as a "land of opportunity". Participation in NAFTA should help slow this flow of our more enterprising citizens. Almost all the roughly one million Guatemalans now living

in the United States would prefer to live in their own country, if they could find adequate economic opportunities. We hope that participation in NAFTA will permit our country to experience the kind of economic growth which would help attract vastly increased imports from the United States and attract back many of our U.S.-based citizens with the English language and work experience that they have acquired.

Finally, we are confident that Guatemala's participation in NAFTA will produce mutual benefits for our two countries, similar to the benefits that both countries have realized from participation in the CBI.

We urge your subcommittee to favorably embrace the NAFTA Parity Bill.

Thank you.

Chairman GIBBONS. We thank all of you for your testimony.

As I say, I am astounded by what happened when we made the unilateral grant of free trade access to our market. It has always amazed us that it worked so well in our own behalf. We hope that job creation in Central America has been as great as it apparently has been in this country from that.

Mr. Pickle.

Chairman PICKLE. You gentlemen have testified very much for the legislation, and I notice a trend throughout most of the statements that you think it is important that we enact this Parity Bill, 1403, quickly.

What would happen to the CBI areas if there is a considerable time lag in there, if we went for months and months and we go on just like we are now and do not pass 1403? Would that affect your region in any particular way?

Mr. POSTAL. Well, let me answer on behalf of some of the U.S. companies doing business in the region, particularly in the apparel sector.

I think if there is a substantial delay in the implementation of this kind of legislation, following the passage of NAFTA, you will see substantial disinvestment from the countries of the region.

Chairman PICKLE. Disinvest?

Mr. POSTAL. Disinvestment, loss of jobs, loss of investment, with companies recognizing a substantial competitive disadvantage in conducting business in these countries vis-a-vis Mexico and not only moving new investment to Mexico, but rethinking whether their existing investment is viable, given that competitive disadvantage.

Chairman PICKLE. Well, do you other two gentlemen agree that we ought to have quick action in the best interest of your region?

Mr. HIRSCHMANN. I not only agree with that statement, but would add that furthermore this is the only way to assure the nations of the Caribbean region that they, in fact, have a stake, that they are stakeholders in our plan to unite the hemisphere, and that if they continue to make the reforms to strengthen their economies, open their markets and begin to pass needed intellectual rights legislation, that there is a way for them to overcome the difficulties of making those reforms and join into a Western Hemisphere free trade area. And if we do not move quickly, we will lose an oppor-

tunity, because of all of the changes, all of the progress that has been made, in part because of CBI, can still be reversed.

Chairman PICKLE. Well, we have a procedural problem, I assume. Could we go ahead with 1403 before we take up NAFTA, or do you take up NAFTA and then 1403? And that is something we do not know yet.

But there ought to be—they ought to move together in consonance with each other, and I think there is general agreement on that, and I can see why.

Well, I thank you, Mr. Chairman, for this panel's testimony.

Chairman GIBBONS. I noticed also in your testimony that many of you suggested the 3 years was not long enough and that perhaps a slightly longer period would do the job. I am trying to balance the competing interests of those—of our people who do not want anything, want you to go to negotiation immediately, and those who would rather negotiate for a longer period of time before these benefits take over.

And perhaps there is some way we can solve that problem as we get a little further into this. I do not think that the negotiation would be that difficult. That is what I am counting on. But it does take time to negotiate, and I realize everybody needs time. And since the countries are so numerous, we could not tackle them all at one time; we would probably have to tackle each one of them individually. And so that is the kind of balancing act that we tried to do on the 3-year time interval.

But all of your testimony was good today and very helpful, and thank you for coming.

We go next to the American Association of Exporters and Importers, Mr. Lande; to the American Tourister, Inc., Mr. Korbas; and to the Central American and Caribbean Textile and Apparel Council, Mr. Hoyle.

Mr. Lande, we will go to you first, because you were so generous to let Mr. Woltz take your place in the last panel. Thank you very much.

Chairman PICKLE. Mr. Chairman, before he commences, I want to say that some of these gentlemen came here earlier before anyone this morning and have waited longer. So we appreciate their patience.

Chairman GIBBONS. Yes, sir, we do.

STATEMENT OF STEPHEN LANDE, VICE CHAIRMAN, TRADE POLICY COMMITTEE, AMERICAN ASSOCIATION OF EXPORTERS & IMPORTERS AND PRESIDENT, MANCHESTER TRADE, LTD.

Mr. LANDE. The fact that you have spent so much time on this particular program for more than a decade is very much appreciated, I am sure, by all of us on the panel.

The American Association of Exporters & Importers (AAEI) is a national organization comprised of approximately 1,200 U.S. company members who export, import, distribute, and manufacture a complete spectrum of products. Its members also include many firms and companies which serve the international trade community, such as customs brokers, freight-forwarders, banks, attorneys, insurance firms, carriers, et cetera.

AAEI supports passage of the Caribbean Basin Free Trade Agreements Act (H.R. 1403), since NAFTA parity for the Caribbean will ensure increased American employment and more competitive U.S. production, which will lead to increased exports. NAFTA will also contribute to economic and political stability of countries neighboring the United States.

In addition to fast track renewal for the Uruguay round, a primary legislative trade policy priority for AAEI this year is the enactment of the North American Free Trade Agreement.

H.R. 1403 will respond to some key concerns that NAFTA could inadvertently weaken United States/Caribbean trade relations. Hence, the State of Florida and Americans with cultural or ethnic links to the Caribbean Basin have announced their support for the bill.

NAFTA parity will also aid U.S. industry and workers who depend on coproduction with the Caribbean region by extending many of the coproduction provisions, which already exist under section 222, to the textile and apparel area.

The section 222 provisions have been particularly effective in the footwear area. For example, in 1992 U.S. footwear imports under the Caribbean Basin Economic Recovery Act (CBERA) coproduction provisions were approximately $134 million, comprising a significant portion of the total $1.5 billion of imports eligible for CBI treatment. I would like to point out that this was only a tiny percentage of overall U.S. footwear imports.

Coproduction involves the assembly of U.S. parts in the Caribbean Basin and exportation of the finished products to the United States duty-free. If these imports come from non-Caribbean Basin countries, it is almost certain that they would not contain U.S. components. An increase in coproduction basically displaces these non-CBI imports to the benefit of U.S. industry and workers.

Thus AAEI members believe that the only group which would benefit from a repeal or a modification of the current section 222 provisions would be production units in the Far East.

Congressman Gibbons very generously, in proposing and introducing H.R. 1403, indicated that he considered it to be a discussion draft. AAEI, therefore, has recommendations in two areas, the apparel provision and the duration and the type of the interim period.

Under H.R. 1403 and NAFTA, the basic origin rules for apparel and home furnishings requires in most cases that eligible apparel either be produced from fabric cut and formed in the region, in the United States, the so-called special regime in NAFTA and United States/Mexican relations, and guaranteed access levels under the CBI.

Under NAFTA, in addition, there is a new rule which is called "yarn forward" which provides that products produced from yarns spun and fabric formed in the United States are a requirement for eligibility.

The latter rule is strict. Under NAFTA, however, the effect of the "yarn forward" rule is somewhat mitigated by other provisions, including the establishment of preferential tariff treatment for a limited amount of apparel and home furnishings not meeting the strict origin rule.

Under H.R. 1403, the U.S. Trade Representative is only authorized, but not required, to establish preferential tariff levels, whereas in NAFTA the establishment of preferential tariff levels is mandated. To achieve parity, establishment of such preferential tariff levels for the CBI also should be mandatory.

AAEI also proposes provisions in H.R. 1403 requiring the United States to negotiate reductions in existing bilateral textile agreements to prevent an increase in imports of textile products under quotas which do not satisfy the strict origin rules. The concern is that if the quota levels remain the same, when qualifying products are given quota-free entry, nonqualifying products would thus be able to use up the newly freed quotas.

Given the fact that in almost all cases there are currently separate limits for qualifying and nonqualifying products, there may be no need for this provision. Its inclusion could become a pretext for unjustified reductions in quota levels.

AAEI also urges a more flexible timeframe than the 3 years provided in H.R. 1403 for the transition period and for the expiration of the fast track negotiating authority. We respectfully request alternatives which we believe are worth considering as opposed to the strict 3-year limitation.

First, Congress could agree to allow more time than 3 years for countries to enter into free trade agreements. There were already suggestions for periods of up to 7 years.

Second, an extension of the 3-year period could be provided for if a determination is made that countries are putting forth their best efforts to reach agreements. The standard was set forth in the fast track procedures in the 1984 Trade and Competitiveness Act, which allowed fast track to be extended if good-faith negotiations were underway. You may recall an extension of fast track was granted in 1991 under this provision to allow continuation of the Uruguay round as well as the NAFTA negotiations.

Third, countries could be required to continue their movement toward more open market economies and responsible economic behavior without being required to enter into a specific free trade agreement. The current practice of country reviews would continue to ensure that such progress was being made. The reviews would monitor progress by beneficiaries toward increasing market access and investment opportunities and protection of labor and intellectual property rights. Protection of the environment could be added as a condition and could be modeled after whatever is negotiated in the side agreements.

AAEI usually limits its comments to the trade implications of bills. However, we would like to take the opportunity to point out that CBI has encouraged the development and strengthening of democracy throughout the region.

There was an article in yesterday's Christian Science Monitor by Peter Hakim, which perhaps indicated the significance of the CBI in relationship to movement toward and maintenance of democracy in the region. Peter Hakim, in the article—and Peter, by the way, is the Acting President of the Inter-American Dialogue in Washington—pointed out: Despite Guatemala's history of civil wars, groups across the political and economic spectrum joined to oppose the current President or the President at that time, Mr. Serrano's bid, in-

cluding the business elite, which traditionally allies itself with the Army.

A key factor in terms of this position by the business community was the growing importance in Guatemala of international commerce. The reduction of Guatemala's import barriers in recent years and its increasing integration into the world economy has produced a modern business sector dependent upon trade and foreign capital. That sector recognized the price it would pay for international isolation and the loss of U.S. trade preferences unless it pressed the Army to reverse the coup.

This is not the time to see benefits reduced, even if inadvertently, of the CBI program. There will be continuous threats to maintenance of democracy throughout the region.

So in addition to the trade provisions and the trade arguments which AAEI and others have already provided, we hope that you would take this into account as well in considering the bill.

Thank you again very much, and AAEI requests that you add the whole statement of AAEI into the record.

Chairman GIBBONS. It will be. Mr. Korbas.

[The prepared statement follows:]

TESTIMONY OF STEPHEN LANDE
AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

Introduction

The American Association of Exporters and Importers (AAEI) is a national organization comprised of approximately 1,200 U.S. company-members who export, import, distribute and manufacture a complete spectrum of products, including chemicals, electronics, machinery, footwear, food, toys, specialty items, textiles and apparel. Members also include many firms and companies which serve the international trade community, such as customs brokers, freight forwarders, banks, attorneys, insurance firms and carriers. We welcome the opportunity to testify in support of H.R. 1403, the "Caribbean Basin Free Trade Agreements Act."

AAEI Advocates NAFTA Parity for CBI Countries

AAEI supports passage of the Caribbean Basin Free Trade Agreements Act (H.R. 1403) since NAFTA parity for the Caribbean will ensure increased American employment and more competitive U.S. production which will lead to increased exports. NAFTA parity will also contribute to economic and political stability of countries neighboring the United States.

The Association reminds the Committee that among our primary legislative trade policy priorities this year are the extension of "fast track" negotiating authority for the Uruguay Round and the enactment of the North American Free Trade Agreement (NAFTA). H.R. 1403 will respond to a key concern that NAFTA could inadvertently weaken U.S.-Caribbean trade relations. Hence, the State of Florida and Americans with cultural or ethnic links to the Caribbean have announced their support for the Bill. NAFTA parity will also aid U.S. industries and workers who depend on co-production with the Caribbean region.

AAEI encourages the key premise of H.R. 1403 which is to accord articles currently excluded from duty-free treatment under the Caribbean Basin Economic Recovery Act (CBERA) identical treatment to like articles imported into the U.S. from Mexico. The principal articles to which the Act applies are textiles and apparel subject to textile agreements, footwear, handbags, luggage, flat goods, work gloves and leather wearing apparel. Some of these industries are the region's largest employers, an important source of foreign exchange, and are essential to the continued development of the delicate Caribbean Basin Initiative (CBI) economies.

These regional enterprises also contribute to U.S. competitiveness and jobs. For example, in 1992, U.S. footwear imports under the CBERA "co-production" provision were approximately $134 million, comprising a significant portion of the total $1.5 billion of CBERA imports (although a tiny percentage of overall U.S. footwear imports). Co-production involves the assembly of U.S. parts in the Caribbean Basin and exportation of the finished product to the U.S. duty-free. If these imports come from non-Caribbean Basin countries, it is almost certain that they would not contain U.S. components. An increase in co-production would displace these non-CBI imports to the benefit of U.S. industries and workers.

Furthermore, CBI countries are far more likely to use their currency to purchase U.S. exports. In fact, countries in the region spend 70 cents for each dollar earned on the purchase of U.S. goods and services, compared with only 10 cents by Asian countries.

In addition, over three quarters of all textiles and apparel produced in the Caribbean Basin region, unlike most other suppliers, are assembled from U.S. components. As a result, the U.S. has maintained a larger and more consistent job-creating bilateral trade surplus (on a per capita basis) with CBI countries than with any other region in the world. H.R. 1403 will help reinforce this positive trend. Since the small Caribbean economies, even with

increased investment, are unlikely to develop significant import substituting industries, or industries which displace imports of U.S. components, any increased production spurred by H.R. 1403 would boost Caribbean imports of U.S. components and capital equipment.

The Association also supports application of "fast track" approval procedures to free trade agreements entered into between the U.S. and CBI countries. The Bill, thus, paves the way for agreements which will help ensure U.S. access to rapidly integrating and growing markets in the region. It would also remove the possibility that American imports into these countries will be discriminated against as a result of increasing economic integration within Central American and CARICOM countries, or anticipated free trade agreements between Mexico and Central America, or CARICOM countries and Venezuela.

Although AAEI's primary focus is on the trade implications of H.R. 1403, we would like to point out that CBI has encouraged the development and strengthening of Democracy throughout the region. Most recently, the illegal and unconstitutional seizure of power in Guatemala was reversed through the courageous and broad-based opposition of the private sector to the coup. An effective mechanism for rallying opposition to the dictatorship was the threat of withdrawal of CBI preferences by the U.S. The forces of authoritarianism in Guatemala and in some other eligible countries still remain strong. NAFTA parity for CBI beneficiaries would strengthen the trend toward independent and democratic business sectors in the region.

AAEI Suggests Two Areas for Modification of H.R. 1403

Congressman Gibbons has indicated that H.R. 1403 is to be considered as a discussion draft. AAEI, therefore, has recommendations in two areas--the apparel provisions and the duration of the interim period.

1. Under H.R. 1403 and NAFTA, the basic origin rule for apparel and home furnishings requires, in most cases, that eligible apparel either be produced from fabric cut and formed in the U.S.--so-called "Special Regime" or "Guaranteed Access Level" products--or be produced from yarn spun and fabric formed in the U.S.--the so-called "yarn forward" rule. This latter rule is so strict that it can divert otherwise competitive trade, thus it is not appropriate for inclusion in regional trade regimes.

   Under NAFTA, the effect of the "yarn forward" rule is somewhat mitigated by the establishment of preferential tariff treatment for a limited amount of apparel and home furnishings not meeting the strict origin rule. However, under H.R. 1403, the United States Trade Representative (USTR) is only authorized, but not required, "to establish preferential tariff levels" as under NAFTA. To achieve true parity, establishment of such preferential tariff levels by the USTR should be mandatory.

   AAEI also opposes provisions in H.R. 1403 requiring the USTR to negotiate reductions in existing bilateral textile agreements to prevent an increase in imports of textile products under quota which do not satisfy the strict origin rules. The concern is that if the quota levels remained the same when qualifying products were given quota-free entry, non-qualifying products would be able to use up the newly freed quota. Given the fact that in almost all cases, there are separate limitations for qualifying and non-qualifying products, there is no need for this provision. Its inclusion could become a pretext for unjustified reductions in quota levels.

2. AAEI urges a more flexible time frame than the three years provided in H.R. 1403 for the transition period and "fast

track" negotiating authority. Under this provision, an agreement must be reached with CBI countries within a three-year time frame, otherwise, they would lose NAFTA parity. The agreement must either be for NAFTA accession or negotiations of separate free trade agreements with provisions similar to those in NAFTA. Although the Association supports a time limitation for agreements to be reached, we believe that the transition period for NAFTA parity and "fast track" negotiating authority should be more flexible.

The following are viable alternatives which would allow such flexibility while maintaining negotiating pressure:

a. Congress could agree to allow more time than three years for countries to enter into an agreement. There are suggestions for periods of up to seven years.

b. An extension of the three-year period could be provided for if a determination is made that countries are putting forth their best efforts to reach agreements. The standard was set forth in the "fast track" procedures in the 1984 Trade and Competitiveness Act which allowed "fast track" to be extended for two years, if requested by the President, and if Congress failed to disapprove the extension. Congress was required to disapprove an extension if it found insufficient progress of trade negotiations. An extension of "fast track" was granted in 1991 under the Trade and Competitiveness Act of 1984 to allow continuation of the Uruguay Round and NAFTA negotiations.

c. Countries could be required to continue their movement towards more open economies and responsible economic behavior without having to enter into a specific agreement. The current practice of country reviews would continue to ensure that such progress was being made. The reviews would monitor progress by beneficiaries toward increased market access and investment opportunities and protection of labor and intellectual property rights. Protection of the environment could be modeled after whatever is negotiated in the NAFTA side agreement.

Conclusion

AAEI strongly supports the Caribbean Basin Free Trade Agreements Act. H.R. 1403 is important for continuation of Caribbean Basin efforts toward trade liberalization and a market economy. It will also aid in the preservation of existing economic advantages under CBI and prevent diversion of investment due to NAFTA by granting parity to CBI countries. Further, it will promote trade under CBI and enhance U.S. export opportunities to the Caribbean Basin.

The Association encourages the Trade Subcommittee to consider alternatives to the three-year limitation for the NAFTA parity transition period and for "fast track" negotiating authority. Attention should be given to the duration of the time period. Flexibility with respect to extension of the time period should be maintained to support good faith efforts by CBI countries toward reaching free trade agreements or otherwise liberalizing their economies. NAFTA parity should be maintained in the interim.

In sum, AAEI urges the Committee to work toward passage of H.R. 1403 as it could result in an overall economic benefit to the United States, other NAFTA parties, and to the Caribbean Basin countries.

On behalf of the American Association of Exporters and Importers, I wish to thank Chairman Gibbons and the Trade Subcommittee for this opportunity to present the views of our membership on this important issue.

STATEMENT OF TOM KORBAS, SENIOR VICE PRESIDENT FOR OPERATIONS, AMERICAN TOURISTER, INC., WARREN, R.I.

Mr. KORBAS. Mr. Chairman and members of the subcommittee, I thank you for inviting me to testify. My name is Tom Korbas. I am senior vice president of operations for American Tourister.

Generally we support the Caribbean Basin Free Trade Agreements Act and the principle that CBI countries should be treated the same as Mexico will be under NAFTA. But in the treatment of luggage, there are at least two ways in which the bill, as it is currently written, fails to provide real parity.

Before I discuss these two points, let me give you some background on our company and our interest in the bill.

American Tourister is a leading U.S. manufacturer and importer of luggage. Our headquarters are in Warren, Rhode Island. In fact, we sell more luggage units in the United States than any other luggage company, so we are No. 1 in the industry. We currently manufacture all of our hard plastic luggage in Rhode Island and in Jacksonville, and we are in the process of moving our Rhode Island operations and manufacturing down to Jacksonville, Fla., too.

Up until 1989, we sourced all of our soft textile luggage from suppliers in the Far East, from Taiwan, Thailand, China, and the Philippines. In 1989, we started shifting our soft luggage sourcing from the Far East to suppliers in the Dominican Republic. These suppliers use raw materials specified by us, purchased from both the United States and Taiwan. Most of the fabric used in manufacturing originates from Taiwan where the cost is less expensive than fabric made in the United States. We currently source about half of our requirements from the Dominican Republic and the balance of our requirements remaining in the Far East.

In 1991, we set up a 165,000-square-foot facility in Jacksonville to complement our Dominican operations and distribute finished luggage. We are in the process of expanding both the Dominican sourcing and the Jacksonville facility, and when the Jacksonville facility expansion is complete, we will have 390,000 square feet and employ over 500 people in Florida.

The location of American Tourister's soft luggage operations in the Dominican Republic and Florida has created wide-ranging benefits. By mid-1994, our company will be responsible for over 2500 Dominican Republic jobs, all jobs that used to be in the Far East. We have moved zero—no jobs from the United States to the Dominican Republic.

This obviously contributes in a very substantial way to the goal of the Caribbean Basin Initiative of promoting economic growth and stability in the Caribbean region.

In addition, any raw materials purchased in the United States creates jobs that also had previously been in the Far East, and we are creating white-collar support jobs in the United States in engineering and purchasing, production control, and transportation that also used to be in the Far East.

It is important to understand that the location of luggage assembly facilities in the Caribbean does not harm U.S. interests. In terms of units, over 80 percent of soft textile luggage sold in the United States is imported, predominantly from China, Taiwan, Korea, and Thailand. In 1992, China alone accounted for 28 per-

cent of all textile luggage imports, Taiwan another 30 percent. So 58 percent of imports come from those two countries. The Dominican Republic and the Caribbean, by contrast, accounted for only 4 percent of the imports.

The only significant U.S. production of textile luggage is in the higher-end, low-volume niche product, which is really not competitive with imported luggage. High-end luggage, like a lot of high-end products, is much less sensitive to price than the moderate to lower-end luggage.

So the issue here is not how much U.S. luggage production will be lost. The bulk of luggage is not made in this country anyway; they are not here now. The issue here is, is where are those imports going to come from? And the issue is, how do we create jobs and how do we get a piece of the job pie back? That is the issue. Where are the imports going to come from?

The import-dominated luggage industry, therefore, provides the opportunity to transfer jobs from the Far East to this hemisphere. Just as we have seen with ourselves, assembly jobs can be created in lower-wage countries like the Dominican Republic, and the higher-paying raw-materials-related jobs, the transportation-related jobs, the white-collar jobs, can be created in the United States, again all at the expense of the Far East.

American Tourister's production in the Dominican Republic has already shifted some of the U.S. supply from the Far East to North America, a specific goal of the Caribbean Basin Economic Recovery Act.

The Caribbean Basin Free Trade Agreements Act is intended to provide duty-free treatment in the same manner as NAFTA for products assembled from CBI-eligible countries, using U.S.-origin fabric. We are in the position—we specify our raw materials—we are in the position to stipulate that all of our producers and suppliers use only U.S. fabric in order to take advantage of any duty benefits offered by the bill.

Therefore, the bill would not only allow continued benefits to the Caribbean's development, but also greatly expand the market for U.S.-origin textile material.

The American Textile Manufacturers Institute supports this bill, because they know that jobs will be created in their members' factories, and we want to contribute to that job creation.

Let me address ways in which the bill fails to provide real parity.

In its treatment of luggage, the bill fails to provide true NAFTA parity in at least two important respects. First is the provision in section 101 of the bill to give duty-free treatment to textile and apparel articles assembled in CBI beneficiary countries from fabrics wholly formed and cut in the United States. This duty-free treatment in this bill, however, is limited to articles that are under quota, thereby excluding luggage. We see no good reason for such a limitation.

The second problem has been addressed by a number of other people here today, is the 3-year limitation for parity with NAFTA treatment. The limitation will destabilize the investment climate in the Caribbean countries and encourage businesses to move to Mexico. Companies like American Tourister need to be able to plan their investments, plan their development activities, with the

knowledge that a favorable tariff will not suddenly disappear. The uncertainty inherent in this 3-year limitation will put Caribbean countries at a significant disadvantage.

In written comments to the subcommittee on April 30th of this year, we proposed an amendment to the bill to address these two concerns. The amendment would not harm U.S. luggage interests, any interests in the United States; on the contrary, this would solidify an arrangement whereby the fabric of luggage assembled in the Caribbean is obtained in the United States. It would also support the United States' goals of encouraging economic development and political stability in the Caribbean Basin. Finally, it would expand the market for U.S.-origin textile materials, creating a definite net benefit for U.S. industries.

One final point, last year under special proclamation authority, the President declared a very slight reduction in CBI duty rates for these products. This is an important consideration in encouraging our activity in the Dominican Republic, and for all the considerations I have already mentioned, I urge the committee not to take any steps to reverse this small benefit.

I again thank you for this opportunity to appear before you today.

[The prepared statement follows:]

STATEMENT OF TOM KORBAS
SENIOR VICE PRESIDENT, OPERATIONS
AMERICAN TOURISTER, INC.
TO THE SUBCOMMITTEE ON TRADE
ON H.R. 1403

Mr. Chairman and Members of the Subcommittee, thank you for inviting me to testify. My name is Tom Korbas; I am Senior Vice President of Operations for American Tourister. I am here to present our company's views on the "Caribbean Basin Free Trade Agreements Act."

Generally, we support this bill and the principle that CBI countries should be treated the same way that Mexico will be under NAFTA. But, in its treatment of luggage, there are at least two ways in which the bill as it is currently written fails to provide real parity. Before I discuss these two points, let me give some background on our company and our interest in this bill.

American Tourister and its Operations in the Dominican Republic

American Tourister is a leading U.S. manufacturer and importer of luggage, with headquarters in Warren, Rhode Island. We manufacture our hard plastic luggage in Rhode Island and in Jacksonville, Florida. Up until 1989, we sourced all our soft textile luggage from suppliers in the Far East -- from Taiwan, Thailand, China and the Philippines.

In 1989, we started shifting our soft luggage sourcing from the Far East to suppliers in the Dominican Republic. These suppliers use raw materials specified by us, purchased from both the United States and from Taiwan. We currently source approximately 50 percent of our requirements from the Dominican Republic, with the balance remaining in the Far East. In 1991, we set up a 165,000 square foot facility in Jacksonville, Florida to complement our Dominican operations and distribute finished luggage. We are in the process of expanding both our Dominican sourcing and the Jacksonville facility.

The location of American Tourister's soft luggage operations in the Dominican Republic and Florida has created wide-ranging benefits. By mid 1994, our company will be responsible for over 2,500 jobs in the Dominican Republic, all jobs that used to be in the Far East. This obviously contributes in a very substantial way towards the goal of the Caribbean Basin Initiative of promoting economic growth and stability in the Caribbean region. Any raw materials purchased in the United States create jobs that also had previously been in the Far East. We are creating white collar support jobs in the United States in engineering, purchasing, and production control that also used to be in the Far East.

It is important to understand that the location of luggage assembly facilities in the Caribbean does not harm U.S. interests. In terms of units, over 80 percent of soft textile luggage sold in the United States is imported, predominantly from China, Taiwan, Korea, and Thailand. The only significant U.S. production of textile luggage is higher end, low volume, niche product which is not competitive with the imported luggage. The import dominated luggage industry provides the opportunity to transfer jobs from the Far East to this hemisphere. Assembly jobs can be created in lower wage countries like the Dominican Republic and higher paying raw materials related jobs, transportation and white collar jobs can be created in the United States -- all at the expense of the Far East. American Tourister's production in the Dominican Republic has already shifted some of the U.S. supply from the Far East to North America -- a specific goal of the Caribbean Basin Economic Recovery Act.

The Caribbean Basin Free Trade Agreements Act is intended to provide duty-free treatment (in the same manner as NAFTA) for products assembled in CBI-eligible countries using U.S.-origin

fabric. We are in the position to stipulate that these producers use only U.S. fabric in order to take advantage of any duty benefits offered by the bill. Therefore, the bill would not only allow continued benefits to Caribbean development, but it would also expand greatly the market for U.S.- origin textile material.

Ways in Which the Bill Fails to Provide Real Parity

In its treatment of luggage, the bill fails to provide true NAFTA parity in at least two important respects.

First, there is a provision in section 101 of the bill to give duty-free treatment to textile and apparel articles assembled in CBI beneficiary countries from fabrics wholly formed and cut in the United States. This duty-free treatment -- in this bill and in the NAFTA -- is limited to articles that are under quota, thereby excluding luggage.

We understand that the Administration will seek NAFTA implementing legislation that does not limit this provision to quota merchandise. In the same way, H.R. 1403 should be amended to eliminate the limitation of this provision to quota merchandise. There is just no good reason for such a limitation.

The second problem with the bill is the three year limitation for parity with NAFTA treatment. This limitation could do much to destabilize the investment climate in Caribbean countries, and encourage businesses to move to Mexico. Companies like American Tourister need to be able to plan their investments and development activities with the knowledge that a favorable tariff regime will not suddenly disappear. The uncertainty inherent in this three-year limitation will put Caribbean countries at a very significant disadvantage.

In written comments submitted to this Subcommittee on April 30, 1993, we proposed an amendment to the bill to address these two concerns. This amendment would not harm U.S. interests. On the contrary, this would solidify an arrangement whereby the fabric for luggage assembled in the Caribbean is obtained in the United States. It would also support the United States' goals of encouraging economic development and political stability in the Caribbean Basin countries. Finally, it would expand the market for U.S.-origin textile material, creating a definite net benefit for U.S. industries.

Thank you for this opportunity to appear before you today.

Chairman GIBBONS. Mr. Hoyle.

STATEMENT OF ERIC HOYLE, CHIEF FINANCIAL OFFICER, SARA LEE INTIMATES, WINSTON-SALEM, N.C., ON BEHALF OF THE CENTRAL AMERICAN & CARIBBEAN TEXTILE & APPAREL COUNCIL

Mr. HOYLE. Mr. Chairman, I am Eric Hoyle, the chief financial officer of Sara Lee Intimates, and I am testifying on behalf of the Central American & Caribbean Textile & Apparel Council or as I refer to it in the testimony as "the Council".

The Council supports the passage of H.R. 1403, the Caribbean Basin Free Trade Agreements Act.

The Council, for your information, is the coordinating body for the representation of the textile and apparel industries located in 24 countries in the Caribbean and Central American area. In these countries, several hundred U.S. companies, including my own, employing tens of thousands of people, have responded to the U.S. support for the CBI by building facilities and hiring workers to process textile and apparel, making these companies globally competitive.

The passage of H.R. 1403 will give Central American and Caribbean Basin countries transitional parity with NAFTA for 3 years on goods currently excluded from the Caribbean Basin Economic Recovery Act. The Council would also recommend consideration of a longer transitional period, up to 7 years.

The failure to provide NAFTA parity for Central American and Caribbean Basin countries will result in the diversion of trade, investment, and productive facilities from this region to Mexico, seriously injuring a number of industries, especially textile and apparel.

Our industries and companies will not be able to compete with a Mexican industrial sector that has unbridled and duty-free access to the United States.

H.R. 1403 protects the interests of U.S. companies in the region, especially in the textile and apparel industry. Many U.S. firms invested in the region in order to compete with low-cost Asian textile and apparel manufacturers while still maintaining facilities and suppliers in the United States. Failure to provide a NAFTA-like benefit structure for Central America and the Caribbean Basin will punish U.S. firms who, at the encouragement of our Government, took the risk and invested in the region.

H.R. 1403 will also protect U.S. textile and apparel jobs which rely upon the important Central American/Caribbean Basin market and assist in providing stability to the fragile democracies arising in this region.

U.S. imports of textiles and apparel from CBI countries are not disrupting U.S. industry. Over 77 percent of Central America/Caribbean Basin textile and apparel exports to the United States are assembled in whole or in part from U.S. components. These imports from Central America and the Caribbean Basin displace imports from Asia, which contain little, if any, U.S. content.

In summary, we believe that the failure to recognize the CBI countries as an integral part of the North American trading community would be a tragic reversal of U.S. policy toward this increasingly important region of the Western Hemisphere. H.R. 1403 will ensure NAFTA parity and validate the decades of investment in economic development of the region by the U.S. public and private sectors, as well as the CBI nations themselves.

We ask you to please support a proven win/win bilateral trading relationship. Thank you.

[The prepared statement follows:]

Testimony of
ERIC HOYLE
CHIEF FINANCIAL OFFICER OF SARA LEE INTIMATES
Before the Subcommittee on Trade
House Ways and Means Committee
June 24, 1993

Mr. Chairman, I am Eric Hoyle, Chief Financial Officer of Sara Lee Intimates, and I am testifying on behalf of the Central America and Caribbean Textile and Apparel Council, or as I will to refer to it in my testimony "The Council". The Council is the coordinating body for the representation of the textile and apparel industries located in 24 countries in the Caribbean and Central America. In these countries, several hundred U.S. companies, employing tens of thousands of people, have responded to the U.S. support for the CBI by building facilities to process textiles and apparel, making these U.S. companies globally competitive.

It is a great honor and pleasure to appear before your subcommittee today to discuss the impact of North American Free Trade Agreement (NAFTA) on Central America and Caribbean region, and especially the textile and apparel community, the need for parity, and our full support for the passage of H.R. 1403, The Caribbean Basin Free Trade Agreements Act.

Mr. Chairman, I would like to begin by thanking you for your dedication to the cause of economic and political development in Central America and the Caribbean Basin region. Your continued sensitivity and support to the economic and trade concerns of Central America and Caribbean Basin is deeply appreciated. I would also like to thank you introducing H.R. 1403 and for holding this hearing.

The Council would like to be on record as strongly supporting the completion of the NAFTA. NAFTA stands as the next logical step in the economic restructuring and market openings that Mexico, Latin America and the Caribbean have undertaken in the past few years. By failing to pass NAFTA, these changes could be undermined and cause to be lost a historic opportunity for the U.S. to proceed with hemispheric integration. Further, the state of economic relations in this region will have much to do with how important, long-standing political issues -human rights, terrorism, drug trafficking, democracy, immigration - are dealt with.

At the same time, our members are extremely concerned that the passage of NAFTA will adversely affect the competitiveness of Central America and Caribbean region by attracting existing and potential investment from the region to Mexico, particularly in the textile and apparel sectors. It is for this reason we seek parity with NAFTA and support the passage of H.R. 1403. Not only would this bill provide us with the same tariff and quota treatment on imports that will apply to Mexican imports, but this bill would ultimately lay the groundwork for integrating the Central American and Caribbean Basin countries into a larger hemisphere-wide free trade area.

H.R. 1403 in no way will impede the NAFTA process. In fact, H.R. 1403 will facilitate passage. The legislation will actually increase U.S. support for NAFTA because it will assure that states, firms, or workers reliant on trade with Central America and the Caribbean Basin will not be disadvantaged by NAFTA, and therefore will be able to support it wholeheartedly.

As a result of passage of H.R. 1403 the U.S. will maintain and support the long standing and mutually advantageous relationship between the U.S. and the Central American and Caribbean Basin countries. It will do so at a very low cost because extending NAFTA benefits to Central America and Caribbean Basin countries will have a minimal impact on the U.S. It is estimated that granting NAFTA parity to Central America and the Caribbean Basin will cost $187 million over five years. The small size of Central America and the Caribbean Basin beneficiary countries guarantees there will be no disruption of the domestic U.S. market, while the opportunities given to the Central American and Caribbean Basin countries will make a huge difference in the region's future.

It is clear, by enacting legislation affording NAFTA parity for Central American and Caribbean Basin countries, the U.S. will be encouraging Central American and Caribbean Basin nations to assume their full obligations under a free trade regime and to further open their markets to U.S. products, services and investment. Approval of H.R. 1403 will encourage a continuation of this trend. Without parity, U.S. companies already in the region, competitively disadvantaged by the eventual elimination of Mexican duty rates and quotas, will be forced to consider relocating existing manufacturing facilities. At the very least, they will likely avoid any future investment in the region. Such a reversal in the investment climate will have tragic consequences for the social, economic and political stability of the region. H.R. 1403 reassures both the established and future investors that a level playing field will continue to exist between Central America and the Caribbean Basin region and Mexico in textile and apparel.

United States Trade Representative Mickey Kantor recently stated that

> "the Americas now are the second fastest-growing region in the world. Only Asia exceeds the growth in the Americas. More than a few Latin American countries are shrinking their budget deficits, reducing their foreign debts, and opening up their previously hothouse economies to global competition. This trend provides us with a historic opportunity to make permanent reductions in trade and investment barriers - and in so doing to strengthen growth and democracy through the Americas."

This statement truly reflects the significance of expanding the opportunities provided for in NAFTA to Central America and the Caribbean Basin. I would like to direct my testimony on the negative impact that implementation of NAFTA, without maintaining parity, would have on the Central American and Caribbean textile and apparel industry, the region and the U.S.

The Caribbean Basin Initiatives to date have over the past 10 years contributed significantly to the economic growth and political stability in this nearby, strategically important region. Clearly, any progress our neighbors to the South make enhances our own country's political security. In fact, in large part as a result of CBI, in the last decade, we have witnessed a strong and consistent movement by the Central American and Caribbean nations towards democracy, economic reforms and trade and investment liberalization.

Democracy and open markets clearly buttress each other. Just a few weeks ago, in Guatemala, the business sector, threatened with the loss of CBI benefits, rallied to confront and defeat political tyranny, armed with the power of economic optimism. It is clear to me, improved economic conditions contribute to political stability, deter illegal immigration, and create an alternative to the production and trafficking of illegal drugs. And as you are all well aware, the Caribbean Islands lie on the route for illicit drugs between the main markets in North America and Europe and the major producing areas in South America. Economic stability in this region is the key to keeping the flow of drug trade and its transshipment to a minimum.

Our Central American and Caribbean industries will not be able to compete with a Mexican industrial sector that has unbridled access to the U.S. The textile and apparel industries of Central America and Caribbean Basin are currently subject to quantitative and qualitative restrictions and tariffs, and without NAFTA parity, our industries will be unable to hold their ground against Mexico.

During the past decade Central America and the Caribbean Basin economies have continued to develop and grow, on an economic base stimulated by our Congress' CBIs and, as a result, the demand for U.S. goods and services has grown. The U.S. has maintained a larger and more consistent job-creating trade surplus (on a per capita basis) with Central America and Caribbean Basin countries than with any other region in the world. The Central American Panamanian Federation of Private Entities indicated in a recent report that "60% of the Caribbean and Central American region's income goes to buy American products". The report also stated "45% of raw material, machinery and equipment imports of Central America and Caribbean Basin countries comes from the United States." Thus, we have the truest elements of symbiotic trade ... mutuality of interest and benefit.

In 1992, U.S. exports to Central America and the Caribbean Basin exceeded $11 billion, up more than 10% from 1991. These exports created more than 220,000 American jobs. In addition, for every 100 jobs created in Central America and Caribbean Basin, 15 new jobs are created in the U.S. In contrast, the Pacific Rim apparel trade creates only 2 jobs in the U.S. for every 100 jobs dedicated to apparel production in that region. And U.S. exports to Central America and Caribbean Basin region are expanding at a rate three times the rate of exports to the world as a whole. If Central America and the Caribbean Basin should be shut down, the thousands of jobs in this region and the related U.S. textile and apparel jobs and the jobs in the ancillary industries they support, will not come to the U.S.; they will migrate to the Far East.

Over the past ten years, U.S. companies have moved production to the Central American and Caribbean region in order to remain competitive in the increasingly liberalized global trade in textile and apparel products. These firms recognize that sourcing from the Central American and Caribbean Basin countries allows them to compete with lower cost suppliers from the Pacific Rim - despite the fact textile and apparel products are excluded from CBI benefits.

The ability of U.S. textile and apparel firms to combine U.S. production with offshore assembly in Central America and the Caribbean Basin allows U.S. firms to compete with low-cost producers in Asia. Jobs are thus protected in the U.S. that would otherwise go offshore.

U.S. apparel production in the Central American and Caribbean region under the 807 program has increased at a tremendous pace in

the past several years. According to the U.S. Department of Commerce, in 1988, 807 trade from the region totalled 434 million Square Meter Equivalent (SME); in 1992, that figure more than doubled to 932 million SME. The total U.S. Customs value of textile and apparel trade between the Central American and Caribbean region and the U.S. grew from $1.1 billion in 1987 to $3.2 billion in 1992. During this time period, the value of U.S. components grew from $580 million to $1.7 billion showing that the growth of U.S. apparel imports from the region has been accompanied by the strong and consistent growth of U.S. exports.

Earlier, I referred to the mutuality inherent in the relationship of Central America and the Caribbean Basin and the U.S. Let me elaborate, for the 807 program is central in this regard. A large number of the textile and apparel producers that make up our Council use U.S. cut and formed fabric. This fabric is shipped from the U.S. to Central America and the Caribbean Basin and assembled. This two way process provides numerous benefits for both Central America and Caribbean Basin and the U.S. with the most important benefits being investment, jobs, and trade. This is a true partnership between the U.S. and Central America and Caribbean Basin nations.

It is interesting to note, although textile and apparel items are excluded from duty-free treatment under CBI, nearly one half of the growth in nontraditional exports can be attributed to this sector. U.S. textile and apparel imports of $2.56 billion in 1991 from CBI countries represented 9% of total textile and apparel imports in to the U.S. The increase in imports can be attributed to a number of factors, including the region's proximity, lower production costs, liberal U.S. quota negotiations with CBI countries, and the incentives created by the 9802 program. Statistics also show a correlation between a decline in U.S. imports from Asia and an increase in Central America and Caribbean Basin exports, indicating the region's growth in textile and apparel exports is partly due to a relocation of plants operating offshore in the Far East.

Many companies in the Council are deeply fearful of the signal the U.S. Government is presently issuing in respect to the narrow focus on NAFTA without due respect for Central America and the Caribbean Basin region. U.S. governmental focus, exclusively on NAFTA, is a very strong signal to world markets and global companies about the future of the U.S. and Mexico. Similarly, U.S. silence about maintaining its commitment to the Central American and Caribbean Basin nations is not only a blind eye to the region, but a deaf ear to the previous calls for investment and confidence in the region. Mr. Chairman, the parity legislation you have introduced is crucial for us to remain competitive in this region. Yet, our members tell us, as a result of NAFTA, they have already seen indications of a diversion of investor interest from the region to Mexico for the location of new factories. This shift of potential and incremental investment could result in disinvestment in the region at large.

As a practical matter, parity is essential to products such as textile and apparel. These products account for nearly 50 percent of total U.S. imports for Central America and Caribbean Basin. These products are currently ineligible for CBI duty-free treatment, they carry the highest rates in the U.S. tariff schedule. Free access for Mexico's exports of these products would give the Mexican exporter anywhere between an 8 to 25 percent cost advantage over his competitors in Central America and Caribbean Basin beneficiary countries.

Despite the earliest alarm which accompanies the CBI, U.S. imports of textiles and apparel from CBI countries are not

disrupting U.S. industry. Over 77 percent of Central America and Caribbean Basin textile and apparel exports to the U.S. are assembled, in whole or in part, from U.S. components. These imports from Central America and the Caribbean Basin displace imports from Asia which contain little, if any, U.S. content. Our assembly plants help the U.S. to remain strong, internationally competitive and preserve U.S. jobs.

The diversification of Central America and Caribbean Basin exports parallels the region's investment trends, which have created employment growth in the region and expanded business in the U.S. Since 1989, the U.S. direct investment position in Central America and the Caribbean Basin, measured on a historical cost basis, has increased by 24 percent totalling $40 billion in 1991. U.S. direct investment in Central America and the Caribbean Basin represents nearly nine percent of total U.S. investment overseas.

Many companies invested in this region in the 1980's. They did so to remain competitive against Asian facilities. This was a business decision based in part on the strong commitment of the U.S. Government to see this region prosper. This commitment, in CBI I and CBI II, was the basis for their decision. Their business decision was based upon what was thought to be a safe, secure and competitive investment.

H.R. 1403 protects the interests of U.S. companies in the region especially in the textile and apparel industry. Many U.S. firms invested in the region in order to compete with low cost Asian textile and apparel manufacturers while still maintaining facilities in the U.S. Failure to provide NAFTA-like access for Central American and Caribbean nations would punish U.S. firms who at the encouragement of the U.S. Government took the risk and invested in Central America and the Caribbean Basin. More importantly, it would also harm American workers in the mill and apparel sectors reliant on coproduction with the region.

From a broader perspective a combination of NAFTA and Central America and Caribbean parity would help create a regional trading area which will allow the U.S. to be more competitive with the European trading block and to counter competition from the Pacific Rim countries. Over the past 10 years, the combination of private U.S. investment and foreign and economic policy has been instrumental in the establishment of the textile and apparel industry in Central America and the Caribbean region. This industry has contributed to the democratic stability and economic growth in the region. H.R. 1403 continues the progressive thinking that has the textile and apparel industry working hand-in-hand in the U.S., Central America and Caribbean.

Many of these advances have been spurred on by the U.S. Government's commitment over the past ten years to seeing these countries advance both democratically and economically. H.R. 1403 also encourages these countries to enter into reciprocal free-trade agreements with the U.S. thus laying the groundwork for Central America and the Caribbean Basin to become part of a longer term economic integration of the entire Western Hemisphere. We feel it will be a big mistake for the U.S. to provide Mexico with benefits that will severely disadvantage these countries, and especially the textile and apparel industries. After all, are not the Central American and Caribbean nations part of North America. We strongly urge the adoption of H.R. 1403. Thank you and I will be happy to answer any questions.

Chairman GIBBONS. Thank you, Mr. Hoyle.

Mr. Korbas, I noted the suggestions you had about the bill, and I would urge you to get in touch with our staff, please, particularly Ms. Wignot, who sits here behind me, so we can see if we cannot work those matters out.

Mr. Lande, I appreciate your tying together the economic advantages of this bill and the political matters, that it helps us to solve those problems.

Mr. Hoyle, I have always known Sara Lee as a great food producer. I raised part of my stomach and all of my children on Sara Lee products. [Laughter.]

Chairman GIBBONS. I had an uncle who used to tell me, he would say: You know, Sam, if you ever get any money, you had better buy that Sara Lee stock, because that is a good company.

Mr. HOYLE. Thank you, sir.

Chairman GIBBONS. Sorry I never got a hold of the money to make the investment. [Laughter.]

Chairman GIBBONS. I appreciate what you had to say here. And we are trying to drive this home not only to this committee, but to the entire administration. So any input that you all have with the administration—let me say, the administration has not focused on this problem. That is a problem we have. I am trying to get them to focus on it. Perhaps you all can get them to focus on it. But it needs to be focused on and focused on very rapidly, frankly.

Mr. Pickle.

Chairman PICKLE. Mr. Chairman, these gentlemen have testified in behalf of the pending legislation.

I assume that each one of your organizations have used the section 222—that is, the goods, American goods, sent back here duty-free; is that correct, that you have used this program under 222?

Mr. HOYLE. Well, my goods are not subject to duty-free entry under the CBI.

Chairman PICKLE. I did not hear you.

Mr. HOYLE. I said my particular products are not subject to duty-free entry under the CBI.

Chairman PICKLE. I see. All right. Well, the other two, I assume they are.

Mr. KORBAS. We use it.

Chairman PICKLE. Now the way the law is working now, after we had the compromise under House Bill 11 and we exempted those companies that had already been in operation as of October the 1st of 1990, I believe, is that program working all right? Is that a concern to you? Is the date satisfactory that we have now, or should we have 222 as it is?

Mr. KORBAS. Well, we use 807. I am not quite sure what you mean by 222. We do bring American components back into this country duty-free.

Chairman PICKLE. That is what I mean.

Mr. KORBAS. And pay duty only on the value added. And certainly that is a valuable tool for us.

Chairman PICKLE. I am trying to get at the fact that we reached a compromise a year ago with respect to this one section, primarily because they were leather goods, leather and rubber goods.

Would that be a problem in the administration of the overall CBI program, or would you rather see it changed back like it was originally before we had a compromise under H. Bill 11?

Mr. KORBAS. From my perspective, I would have to check with my people to answer that.

Chairman PICKLE. Well, I guess since that exception pertained to footwear only, that it would not affect your operation much one way or the other; is that correct?

Mr. KORBAS. Again, I would have to check with my people.

Chairman PICKLE. Yes, all right.

Mr. LANDE. My understanding is that the compromise that was worked out did not become law, because it was included in a bill that was eventually vetoed or was pocket vetoed, I guess.

I would simply say that, perhaps similarly, let me check with my membership or with AAEI and come back. I know that—I believe we are very happy with the current way it operates, and we are certainly happy with the compromise if it keeps it alive. But frankly, we think the way that it was originally drafted by your committee was perfect, because it did encourage U.S. production instead of Far East production, and the only people who seemed to gain out of the compromise is the Far East production. But I will check with our members in any case and get back to you.

Chairman PICKLE. I would appreciate it if you would check. I think when I asked the question, I was thinking of the broad picture. But since it is limited, since it pertains only footwear, I assume it would not affect your operations.

Mr. Houghton, are you going to have any questions?

Mr. HOUGHTON. Thank you very much.

Gentlemen, thank you for your testimony. It is interesting and comprehensive.

I would like to work through an issue with you. Maybe you could help me a little bit.

Clearly our responsibility is for the citizens of the United States. We are in an economic period now which is not the greatest, and we are trying to do things to stimulate the economy, and that really, from our standpoint, means the creation of jobs.

I think I get a little worried when you say you are moving business from the Far East to the Caribbean area. And let me tell you why.

You know, why did you go to the Far East in the first place, and then why are you going from the Far East to the Caribbean?

And I think it is because you, you know, you have got special tax considerations, special tariff considerations, that you have relatively inexpensive productive labor, and then you say that obviously you are buying American components and textiles and things like that.

Suppose this Congress decided to open up Zimbabwe or Zambia that had a far lower cost of wages than you have in the Caribbean. Would you move there?

You moved out of the United States; you moved to the Far East; now you have moved to the Caribbean. Where next? And how does that really affect the citizens of this country and the economy of it? Maybe you could help me on that.

Mr. KORBAS. Let me address that. Number one, the Caribbean has an obvious advantage over Zimbabwe in its proximity to the United States, and it is cost-effective to be able to buy U.S.A. raw materials, fabric forward, and ship them to a Dominican Republic and ship them back very cost-effectively and time-effectively. That would not be the case with a Zimbabwe or a China. The fact that——

Mr. HOUGHTON. Yes, but you must have thought that through when you originally had moved to the Far East, because that is not close by either.

Mr. KORBAS. The reason that luggage moved to the Far East is an obvious one. I mean, it is a cost situation, that the Far East had cheaper labor than the United States, and over the years luggage shifted to the Far East, and it shifted very dramatically.

The fact is that at the moment, right now, it is—over 80 percent of luggage is imported and predominantly from the Far East. That is where it is.

Mr. HOUGHTON. No, I understand that. I understand that. And I have been in business for many, many years, probably even before you were born, and I understand the dynamics here.

I guess I am trying to get at this: Here we are trying to develop a trade policy which is fair to the people in this country, and obviously the export business and the export/import business is very, very important.

However, at the same time, you have made two moves, one to the Far East, now to the Caribbean. What is to prevent you from moving to Zimbabwe or to some other place that has cheaper labor? And is that really in the best interests of the United States? I just ask you this question.

Mr. KORBAS. What will prevent me from doing that is an effective legislation like this bill that will give companies the economic incentive to buy U.S.A. materials and assemble in the Caribbean. It is pure economics. And the pure economics of this bill means that jobs will be created in the United States in the textile business, and that is why it is good for the United States.

Mr. HOUGHTON. Well, you know, I guess we can go around this bush a lot of times.

Let me just ask you one specific question. If the wage rates in Zimbabwe were half of what they are in the Caribbean Basin and the same considerations, whether it is in H.R. 1403 or section 222, were offered to Zimbabwe, would you be tempted to move there?

Mr. KORBAS. Absolutely not. And the reason is that with the labor component in the assembly of luggage, that the marginal difference that would be the advantage of labor rates in Zimbabwe would be more than offset by the transportation costs back and forth to Zimbabwe, and that the economic equation is a combination of materials and duty cost, and the combination of materials and duty cost far outweighs the advantages of going to less expensive labor.

Mr. HOUGHTON. Gentlemen, do you have any other comments that you would like to add in here?

Mr. HOYLE. In our case, we have not produced in the Far East. But the progression to Central America and the Caribbean nations for us was one of almost a total industry that at one point was

pretty much centered in Puerto Rico. But through a number of initiatives and given the proximity to the United States and given 807, which is critical in our industry—that is, the ability to take U.S. materials offshore, assemble them, and bring them back, paying duty only on the value added—keeps us focused in this region much more so than Asia.

And frankly, we have no experience with Asia, except that we do know that the typical operation is contract, whereas we own our own plants in the Caribbean, and we would lose control. We are very quality-sensitive with respect to our particular products.

So although I am sure we would run the numbers, my feeling is that—and freight is another major issue, particularly in apparel—the proximity of the Caribbean, as well as Mexico, make them a natural sourcing base, whereas very far afield such as Zimbabwe creates an entirely different scenario.

Mr. LANDE. Let me try to answer it from a perspective of being an adjunct professor at Georgetown and teaching this whole—teaching a course where these questions are raised.

My understanding is that American business will produce, as businesses anyplace, as I am sure we did with Corning and other places, at the best competitive position, because it keeps the company stronger. It is fairer to the shareholders, and it is fairer obviously to the people who may work in the United States.

The reason why CBI was such a significant piece of legislation when it came, the reason why NAFTA in many ways is significant, the reason why CBI parity is significant, is that the United States is saying: You know something, if you do use American components, the strict origin rule, if you do use American products, it helps and benefits the United States. Are we going to have our tariff system reflect it?

The Japanese have learned how to do this way before we do, and they use their special business relationship, their keiretsu relationships, to encourage processing of Japanese imports in the Far East, many of which enter the United States.

So my reaction to that is, I do not know whether it would or would not result in people going to Zimbabwe or not to produce. But I do know that the passage of this bill will create many more jobs in the United States, and high-paying jobs, than not passing the bill, and that is how I think I would view it and so on in terms of the question.

But certainly the way you have phrased it is—the question is correct. I hope our responses are responsive to the points you are trying to make and so on.

Mr. HOUGHTON. Well, Mr. Chairman, I do not have any other questions.

I think it is important to get this issue out, because there gets to be a lot of confusion as to whether we were doing right by citizens of this country, and I think those answers have been very helpful.

Thank you.

Chairman GIBBONS. That is a good question.

The bells have rung again, and we have got to go and vote. We will go next to the last panel, to the Amalgamated Clothing and

Textile Workers Union and to the Luggage and Leather Goods Manufacturers of America.

Thank you all very much. It has been very helpful. And we will be right back.

[Recess.]

Chairman GIBBONS. Now the Amalgamated Clothing and Textile Workers Union.

STATEMENT OF ARTHUR GUNDERSHEIM, ASSISTANT TO THE PRESIDENT, AMALGAMATED CLOTHING & TEXTILE WORKERS UNION, AFL–CIO

Mr. GUNDERSHEIM. Thank you very much.

I should say actually maybe we are ambivalent about being here to testify. In a sense, we obviously want to present our views, but we have addressed this question several times before.

Chairman GIBBONS. I recall.

Mr. GUNDERSHEIM. Yes. As there have been a number of pieces of legislation dealing with the Caribbean Basin over the years, over the last several years, both its initial enactment and then, of course, subsequent changes that have been proposed.

And it would not come as any surprise, obviously, that we would be opposed to this particular piece of legislation. But I think the rationale and the reasons might be slightly different than before.

Actually I find this sort of interesting. I think this is the first time that we might have found the proverbial free lunch, you know, lots of folks getting lots of benefits for which they do not have to pay anything. There are not real obligations, and there are no real commitments, from many of these countries in terms of getting benefits—they get the benefits early on, and quite frankly we do not think there will be any chance of this being reversed or the benefits taken away at any future time if countries do not live up to the various obligations that would be implied in an extension of NAFTA.

The bigger problem is our membership does not quite understand this worry about the diversion of investment from Mexico and the attempt to rectify that problem when they do not understand what is being done about encouraging investment in this country. They do not understand what is being done to create jobs here, quite frankly.

They clearly, obviously, have heard the President and his ideas and his programs, but frankly they find the response from Congress less than anemic. They find nothing being done to avoid the diversion of jobs wholesale from the United States, not just to Mexico, but to the entire Caribbean, which is not to say that we do not support economic development in the Caribbean and Mexico and so on.

But the reason is, it clearly cannot be based on the current NAFTA, the agreement that has been negotiated, even questionably at this point about what would be included in terms of the labor rights section on the side agreement, though that has not been completed.

We think the NAFTA itself is seriously unbalanced, scrupulous to a fault in its treatment of corporate concerns and silent on the critical social and economic concerns that affect our members.

You know, it is strange that NAFTA contains an entire chapter defending intellectual property rights, but there is not a single word in the basic agreement concerning human rights. Even if we look at the labor side agreement, frankly, from our perspective, it is not going to resolve that problem to any meaningful degree.

The approach taken, from our perspective, in this legislation, if I can use fairly strong words, is almost capitulation before negotiation. Traditionally, in most international trade agreements, benefits and obligations go together.

But granting benefits first creates virtually no incentive for acceptance of obligations. And in effect, this legislation is, from our perspective, a sort of a foreign aid program by a new name.

But unfortunately it is a program whose costs are borne disproportionately, vastly disproportionately, by our members in the soft goods industries and the labor-intensive industries and not a foreign aid program which is traditionally shared countrywide and whose costs are paid out of our general tax structure.

It is a program whose only beneficiaries are corporate managers and shareholders, and virtually the only U.S. export, despite all of the previous testimony you heard, is U.S. jobs.

We have heard a number of people say that they are bringing jobs back from the Far East and so on. I think there clearly is one or two or three examples. Unfortunately, the sum total of imports cumulatively keeps expanding, because there are a half a dozen people who go right back into the Far East, and every single square yard of quota of textile and apparel from the Far East is being utilized here. We do not see any diminution to any degree in the overall totals.

You know, it is great to hear people are coming to the Caribbean, but unfortunately textile and apparel imports are up 5 percent this year. And for the few slight cases of a decrease from Taiwan—and that is only because they cannot transship enough and they got caught in too many cases of illegal violations of their own quota—that the shipments from Taiwan are down.

We are also not persuaded that this legislation is necessary to prevent disinvestment in the Caribbean. The International Trade Commission study showed that, the effects will be quite minimal, if not almost pretty close to nonexistent, because so many other cost-of-production factors already exist in the Caribbean and give it an advantage over Mexico. So in effect, we do not see any vast wholesale shift to Mexico at this point.

The wage levels in literally almost all of the nations that would be affected by this legislation are lower than Mexico with, I think, two or three exceptions, the last I looked, and therefore—and if you count in all the other factors of production in terms of special benefits provided in the export processing zones and tax systems and so on, we see virtually all of that overriding any potential advantages Mexico might have by its higher wage level and its more formal labor law structure.

In fact, that is one of the interesting points. Mexico does have a fairly strong labor law, a fairly strong labor movement, and I will not address the question here of whether that law is enforced and how one gets it enforced, but at least the structure is there in Mexico.

In most of these CBI countries, labor law is either nonexistent or virtually useless, that the existence of trade unions is totally illegal, or physically and violently opposed. I mean, we have had several hundred people shot in El Salvador, and I mean murdered.

In the Dominican Republic supposedly the law was changed this last year, and yet for several hundred people who have attempted to form unions in the export processing zones, every single one has been fired. No union has been legally recognized nor has a contract in any one of the companies there.

So in effect, the labor situation in most of these countries is worse than it is in Mexico. And it seems to me that is really what American corporations are seeking out.

Let me point out a couple of other things. What this legislation really does is it reward countries for, in fact, violating not just labor laws, but a whole series of understandings that we have in terms of drug agreements, in terms of other standard social and humane goals, that are not adhered to. If I can be kind in that sense, all it does is reward frankly some of the worst offenders of our social values that we can find anywhere.

The next point I want to make is the effect on Puerto Rico, and I do not know if that has been raised in earlier discussions. But we have a substantial number of members in Puerto Rico. Puerto Rico, as you obviously well know, has a good deal of economic structural problems, a very high unemployment rate. In fact, it quite literally exists only through a great direct subsidy through our Tax Code.

And this legislation would wipe out any remaining textile and apparel jobs in Puerto Rico. We do not see—I mean, all this does is increase the direct economic benefits that are going to have to be given to Puerto Rico. And frankly it is quite difficult to justify and understand how Congress should be so willing to just ignore, or worse than ignore, to deliberately harm the people of that country.

Now let me address a couple of things real quickly in terms of what has been mentioned here in earlier testimony.

One is that we have a trade surplus with these countries. I think everybody is looking at the wrong numbers. If you subtract out American companies trading with themselves, with all of the products that are made here in component parts that are just shipped down and shipped back, if you subtract all that out, I guarantee you we have a trade deficit with these countries. You cannot look at the numbers at their face value, just in straight dollars as they are reported. One has to do a more sophisticated analysis.

The second thing I would point out is the fact that this is a grand road down to destruction of labor standards in the United States.

You know, it amazes me that we keep talking about how much and how valuable a free market system and an open market system is to lowering consumer prices, because of the effect of competition, the effect of prevention of monopoly and closed markets and so on, that the real basic consequence of that is the consumer gets the absolute lowest price.

Well, why is that not true in terms of labor costs? What you are doing is creating a free market in wages and labor costs and ex-

panding it from the United States, first to Mexico and then to the rest of the Caribbean and Central America.

The consequence of that melding of labor costs has to, by definition, drive down American wages. And I think it is not an accident that the correlation between the continuing decline of real wages for American workers has been directly proportional to the increase in imports coming from low-wage sources as they have expanded through the 1970s and 1980s. It seems to me, this is a direct consequence of economic theory that it would be pretty hard to deny.

So in effect, what we are doing is setting up a race to the bottom. All we are doing is setting up a situation where to remain competitive, all you do is figure out who can end up with the lowest cost. I do not believe—you know, there is a good deal of talk about us going into high tech in the most productive industries and somehow, if we are 10 times more productive, we can overcome the cost differentials.

It has not been true in our history. I have got to tell you, we are now the most productive Nation in the world. It is not true in lots of other industries, and I just do not see the same kinds of jobs being created in manufacturing.

And unless you can tell us how we are going to deal with the millions of new immigrants that our country keeps allowing in, both legally and illegally, and what we do with the 30 or 40 percent of people who never graduate high school and whose only function to the economy—the only service they can provide, in effect, is their physical skills. I do not see any national program, any major program, and certainly none is being proposed in the current budget programs, to educate people and to give them the skills necessary—then I think we are just kidding ourselves.

What you are doing is creating a vast underclass of people who will be unemployable and unable to provide any contribution to our economy.

We do not understand how Congress, therefore, can entertain this legislation at this time, and particularly with the fact that we do not know what the impact of the NAFTA itself will be. I mean, it is a little presumptuous to go ahead now and extend it to a whole bunch of other countries when you do not even know what the effect in terms of Mexico itself will be.

Let me just say one final thing—in closing, that the NAFTA itself, as all of you are well aware, is a very contentious issue, particularly here on the House side. If you want to do your best to find—to get that agreement defeated—in fact, maybe I should really say: Let us pass this piece of legislation, because now it is no longer a NAFTA; now it is a North American/Central American/Caribbean Free Trade Agreement. And if you do not think that is going to scare our members and scare a lot of other people around the country and make them really think twice about whether we should even enter into an agreement with Mexico, I think you will be real surprised.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF

THE AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, AFL-CIO

PRESENTED BY

ARTHUR GUNDERSHEIM
ASSISTANT TO THE PRESIDENT

ON

H.R. 1403, THE "CARIBBEAN BASIN FREE TRADE AGREEMENTS ACT"

TO THE SUBCOMMITTEE ON TRADE,
HOUSE COMMITTEE ON WAYS AND MEANS

JUNE 24, 1993

Chairman Gibbons and Members of the Subcommittee:

I. Introduction and Statement of Position

The Amalgamated Clothing and Textile Workers Union, AFL-CIO, (ACTWU) represents nearly a quarter of a million workers concentrated primarily in the men's and boys' clothing, textile, leather, and footwear industries. ACTWU also has significant membership in the automotive trim, medical products, and photocopying equipment industries.

ACTWU is opposed to HR 1403, the "Caribbean Basin Free Trade Agreements Act," which would provide the same preferential tariff and quota benefits to Caribbean Basin beneficiary countries that are provided to Mexico under the NAFTA.

The bill's premise, as stated in section 2 of HR 1403 is "to avoid the potential diversion of investment from beneficiary countries under the program to Mexico as a result of the North American Free Trade Agreement." The irony of this legislation is not lost on thousands of textile, apparel, footwear and leather products workers who have lost their jobs to Caribbean and Mexican imports of these products. They are wondering why the Subcommittee is not more concerned about the diversion of investment from the United States to the Caribbean and Mexico that has occurred and is continuing to occur as a result of the current CBI, "807," and the potential of NAFTA. They want to know why it is that the Subcommittee is not considering legislation that "avoids" the diversion of jobs of thousands of American workers to the Caribbean and Mexico, why they have been all but forgotten in this debate.

ACTWU believes that the focus of the Subcommittee should be the rapidity at which investment and jobs are moving out of the US and to the Caribbean and Mexico given the fact that the abundance of cheap labor, alone, in both Mexico and the Caribbean guarantees that both areas will continue to be major textile and apparel suppliers to the US market with or without NAFTA preferences. While, ACTWU strongly supports continued economic development in Mexico and the Caribbean, it should not be based on the current NAFTA as it is presently structured, because of the kind of agreement it is. The proposed NAFTA is seriously unbalanced, scrupulous to a fault in its treatment of corporate concerns and silent on crucial social and environmental concerns. To cite only one glaring example: NAFTA contains an entire chapter defending intellectual property rights, but there is not

a word anywhere concerning human rights. And early word on the side agreements being negotiated is not very encouraging to us.

Just because the NAFTA parity benefits are extended for 3 years only – at which time the CBI countries would either accede to NAFTA, or sign their own free-trade accord with the US, or lose benefits – no one should believe for a minute that the benefits would be revoked under any circumstances. Once extended, the congressional sponsors of this legislation would never permit the benefits to be withdrawn. The legislation is just one more clever ruse to provide additional trade preferences to the Caribbean through the back door that the sponsors have not been able to get through the front door.

The approach taken by HR 1403 is capitulation before negotiation. Benefits and obligations go together. Granting the former first creates no incentive for acceptance of the latter. What HR 1403 will produce is a managed trade agreement benefiting only corporate managers and shareholders, with the only US export expected to increase is US jobs.

Several CBI nations are notorious for their antidemocratic governments, their extremely inequitable distribution of wealth, their open disregard for human and worker rights and their clear cooperation with the drug trade. For this we should reward them and treat them as our co-equals?! We need a truly comprehensive Hemisphere development program including debt relief, minimum social and economic standards with schedules of progressive betterment, guaranteed human rights and a system of trade sanctions for failure to adhere to the terms of any agreement.

II. Case Has Not Been Made that CBI Countries Will Suffer Serious Disinvestment Due to NAFTA

ACTWU is not at all persuaded that this legislation is necessary to prevent major disinvestment in the Caribbean. This conclusion is largely supported by a study that was prepared by the US International Trade Commission (USITC) last July on the potential effects of a North American Free Trade Agreement on apparel investment in CBERA countries (USITC Publication 2541, July 1992). Among other things, the report found that low wages were a critical element in investment decisions and the Caribbean would continue to be competitive in this area even after NAFTA. Relevant excerpts from the report follow:

> "Ten out of fourteen US companies interviewed by ITC staff indicated that wages were a critical factor in their decision to produce in CBERA country or Mexico."
>
> "Labor costs, ranging between 58 cents and $1.10 per hour for an apparel assembly worker in the CBERA countries, are sufficiently low (particularly in relation to US wages) to encourage further growth [emphasis added] in the region's apparel industry."

Many CBI countries have wages and labor standards that are substantially below Mexico's. In fact, the labor laws on the books in Mexico are relatively strong and there is an established trade union movement in Mexico. With the exception of two or three CBI countries, the same can not be said of the majority that would receive these trade concessions. For example, trade unions are illegal in Panama's Free Trade Zones (FTZ), and there are no functioning unions in the FTZ of the Dominican Republic, Guatemala and Honduras, which produce an enormous volume of

apparel exports. The ITC Report made the following observations about apparel production in the Dominican Republic:

> "The Dominican Republic is the leading CBERA exporter of apparel to the United States. The level of Dominican apparel exports to the United States has exceeded the corresponding total for Mexico [every year] since 1988."
>
> "Foreign apparel investors have also been attracted to the Dominican Republic by its proximity to the U.S. market, and by wage rates averaging about 10 percent of U.S. apparel industry wages. . .and about 90 percent of wages in Mexico."

Despite labor law being recently changed in the Dominican Republic to allow unions in the FTZs, it has been a hollow gesture to avoid losing GSP. Unions are still not allowed to function and union members are still quickly fired.

Moreover, the report found that in a number of apparel sectors analyzed by the ITC, Mexico, post-NAFTA, did not overtake the Caribbean in terms of costs. Post NAFTA, the Caribbean maintained an advantage in a number of the sectors analyzed. In fact, the economic model used the Commission to estimate trade diversion found that the estimated effects for the CBI countries from NAFTA was likely to be "very small."

The notion that the CBI needs new tariff preferences to compete in the US market is not credible. The growth in CBI textiles and apparel has been phenomenal under special preferential benefits already accorded CBI countries in textiles and apparel. In its September 1992 annual report to Congress on the operation of the CBI program (USITC Publication 2553, September 1992), the ITC found that since 1988, US imports of CBI textiles and apparel has risen by $1 billion, totalling over $2.5 billion in 1991. From 1990 to 1991, imports increased by over half a billion dollars. According to the report, the CBI's rapid growth in textiles and apparel is based on geographic proximity, lower production costs relative to Asian producers, and utilization of the "807A" program, to gain virtually quota free entry at minimal duty rates. Thus, our members fail to see why additional incentives are needed to increase access for CBI countries to our market when they seem to have no problem under the current trade regime.

III. More Apparel, Footwear and Leather Industry Jobs Will Flow Out of the Country Under 1403 and Harm the US and Puerto Rican Economy

The majority of workers in this industry are women, disproportionately minority and immigrant. Their pay is modest, but they rely on these jobs to support their families and provide some hope of a better future for their children. Their geographical immobility and relative lack of formal education makes their adjustment to job loss particularly painful.

The jobs of these workers are primarily located in the inner city of isolated rural areas. Consequently, alternative job opportunities are not just few, but frequently non-existent. A Bureau of Labor Statistics study of apparel workers done several years ago clearly shows that the consequences of further job deterioration in this industry is a net loss to the economy. At least one-half of the displaced workers studied never found alternative employment. One quarter of the remaining unemployed workers had to settle for jobs that pay even lower than in the apparel industry. The remaining one-quarter found jobs that paid

slightly more than previous pay. And Congress has done nothing to create new jobs for the millions of displaced or underemployed, not just in our industry but in our economy as a whole.

In addition to massive job loss, wages and working conditions will decline for the jobs that remain in our industry as US workers are forced to compete with impoverished Mexican and Caribbean workers. Keep in mind that average wages for American workers have been falling since 1973 and are now at levels not seen in this country in over a quarter century. As a country, we can not have a trade policy that aggravates this trend or that makes future recovery of the domestic economy impossible. At it core, HR 1403 is such a trade policy. Add to this the cruel fact that the workers in the CBI countries may have a few more jobs, but their living standards have likewise not risen.

A final point must be mentioned. The consequences of creating substantially enhanced production incentives in the Caribbean will completely undermine apparel production in Puerto Rico. ACTWU has thousands of apparel workers in Puerto Rico whose jobs will be jeopardized by this legislation. The economic environment in Puerto Rico is difficult enough already without this added burden being imposed.

IV. Conclusion

The proposed NAFTA ignores entirely the enormous social and economic disparities among the countries of North America, and fails to provide any mechanism to defend fundamental worker rights or harmonize upwards social and environmental standards. It thereby ensures that the convergence of standards will be downward, not upward. For most North Americans, the proposed NAFTA promises only aggravate the "race to the bottom" in living standards already so painfully evident in North America. And now Congress should extend this to the countries of the Caribbean and Central America?

While our union continues to believe that the proposed NAFTA is fundamentally flawed and must be re-negotiated if the social and environmental dimensions of North American economic integration are to be adequately addressed, we recognize that President Clinton's position provides an important opportunity to significantly improve the agreement in particular areas. We stand prepared to work with the new administration and the Congress to assure that meaningful improvements are made to the NAFTA in these supplementary agreements. But we also insist that a Hemisphere development program and domestic employment program need to be enacted simultaneously with any trade enhancement program.

While ACTWU continues to believe that the proposed NAFTA can be renegotiated, we, at least, had a negotiation with Mexico. This CBI legislation unilaterally hands over benefits and asks nothing in return. There are not even minimum baseline commitments required of Caribbean countries as a condition of receiving trade preferences. ACTWU does not understand how the Congress could entertain HR 1403 at this time, particularly in view of the as yet unknown impact that just NAFTA alone will have on jobs in our industry and in our country.

We must therefore urge the Subcommittee and the Congress to reject this legislation.

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Chairman GIBBONS. Mr. Ermatinger.

STATEMENT OF ROBERT K. ERMATINGER, EXECUTIVE VICE PRESIDENT, LUGGAGE & LEATHER GOODS MANUFACTURERS OF AMERICA, INC.

Mr. ERMATINGER. Good afternoon, Mr. Gibbons; good afternoon, Mr. Houghton.

I am Robert Ermatinger. I am the executive vice president of the Luggage & Leather Goods Manufacturers of America. Our association represent the vast majority of all sales of these products in the United States.

Our association opposes H.R. 1403, legislation that would grant NAFTA tariff treatment to CBI countries.

Our main reason for opposition to this bill is that products made by our members extremely import-sensitive. This fact has been recognized over and over again by Congress and by the various agencies of the Government. You have heard testimony before that 80 percent of the luggage product is imported. We estimate somewhere between 60 and 70 percent. Nevertheless, this is extremely devastating in terms of American jobs.

I think Mr. Houghton put it very, very succinctly. Where is the benefit to American citizens? We seem to have lost sight of that basic objective when we are considering how we can export more jobs out of the United States into foreign countries.

I think, too, we make a mistake in comparing this bill with NAFTA and trying to make it seem as though they are parallel. NAFTA was a negotiated agreement. Before any proposal was made to Congress, it was negotiated with Mexico as to what the terms would be.

This proposal is a giveaway before there is any consideration of a negotiation, and it is giving encouragement to countries to get all of these benefits without having to give anything back, the idea being that later on they were going to negotiate a free trade agreement. But in my experience of 25 years, nothing is ever taken back. There is always more and more given.

I was very amused, therefore, to hear a panel earlier speaking about 3 years is too short a time. Let us make it 7. Why not 10? Why not 15? Because what these fellows want is guaranteed return on their investment before they will put money into the Caribbean.

We have several people saying we should be thrilled to death to pass this legislation because they are going to use some American fabric in these foreign countries. This is really patronizing to America, I believe, to say: Give us all of your jobs, and we will consider, and maybe we will start, using some of your fabric in our plants down in the Caribbean.

Going back to Mr. Houghton's point, our headquarters is located in Manhattan. I do not know if you are aware that there is a 50 percent unemployment rate among the teenagers in New York City. A great many of these are black, and Hispanic, and they have no job prospects. These include about 2 million people from the Dominican Republic alone, who are in New York. They are people who are looking for jobs, and we are saying to them: There are no jobs here; we are shipping them back to the Caribbean.

So I feel that Mr. Houghton's point is very well put. What do we do with all of these people who have come to this country looking for work, when we are giving away all of the entry-level jobs which could give them the opportunity to be valid American citizens?

Now the idea that this is going to allow all of these people to return to the Caribbean, which was stated by one of the ambassadors earlier, is not the case. If you look at the Chinese example, you will find that the idea of giving away American jobs to stop the flow of immigration into the United States is false.

It is reported in The New York Times, there are hundreds of thousands not just of regular aliens entering this country from China, but illegal aliens still trying to get into this country. And I put it to you, the same thing will continue to happen from the Caribbean while we are pushing these jobs back out the door.

It is wrong to assume for some noble reason to support democracy American businessmen are going to use their stockholders' money to go down to the Caribbean and stay there, when some other country—and I liked the illustration of Zimbabwe—may come in with lower wage rates, and other economic incentives. I can envision the day that this same panel will be coming back to Congress and saying: We have got to do something for the Caribbean; let us throw out the rest of our tariff agreements.

So I do not believe that these businessmen are going to do that. These businessmen are going to go wherever the costs are lowest for them. The day that any of the countries in the Caribbean start paying decent wages to the people assembling luggage or these other products and another country like Vietnam comes along with even lower wages, you will see these same manufacturers leaving the Caribbean and going to those countries.

This may seem farfetched. However, there are two luggage factories in Vietnam today. At this point, they are exporting to Europe; however, they have already been writing to American companies. Finally, the idea was put to you that the CBI benefits would somehow draw imports away from the Far East. In other words, we are not giving up more of our business; we are somehow substituting. From my experience, this has not happened in 25 years. Wherever we have put a quota on one country, another country has come along and imports keep building.

China, again, is the great example. China's labor rate is still lower than the Caribbean. China is going to continue pumping goods into this country. Their latest product, jute luggage, went up by 1,200 percent in 2 years. I guarantee you, whatever you add in the Dominican Republic or anyplace in the Caribbean is simply going to result in more imports, putting a final nail into the coffin of the luggage and leather goods industry.

And finally, there are opportunities already with the legislation which Congress has given to the Caribbean, and I point to the Dominican Republic exports of luggage, which went up by 57 percent between 1991 and 1992.

I submit to you, this is evidence that if you took no further steps, you will find excellent opportunities for these countries under the current Caribbean Basin Initiative.

Thank you, gentlemen.

[The prepared statement follows:]

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STATEMENT OF ROBERT K. ERMATINGER, EXECUTIVE VICE PRESIDENT

LUGGAGE AND LEATHER GOODS MANUFACTURERS OF AMERICA, INC.

IN OPPOSITION TO H.R. 1403, "THE CARIBBEAN BASIN FREE TRADE AGREEMENTS ACT"

TO THE SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS

JUNE 24, 1993

I. Statement of Position

This statement is made on behalf of the Luggage and Leather Goods Manufacturers of America, Inc. (LLGMA). The LLGMA is an association whose several hundred member companies represent the luggage and flat goods industry in the United States and its suppliers. Products made by LLGMA members are made from a variety of materials, including textiles, leather, and plastic. LLGMA member companies account for the vast majority of all sales of luggage, business cases, and flat goods in the United States. The LLGMA opposes H.R. 1403, legislation that would grant NAFTA tariff treatment to CBI countries.

This opposition is based on the following factors:

(1) The adverse impact that such legislation can be expected to have on the domestic luggage and flat goods industry.

(2) The Association's policy to support the maintenance of current tariff rates applied to our products -- a policy that is supported by both domestic manufacturers and importers who are members of LLGMA.

(3) The fact that substantial duty benefits are already in effect on our products from CBI countries, which essentially achieve the goals of HR 1403:

-- Luggage and flat goods are presently receiving tariff preferences when imported from CBI countries; such preferences will be expanded over the next three years even without enactment of this legislation. Thus, in fact, our products will have close to the same tariff treatment from the CBI as they do from Mexico during the transitional period provided in the bill.

-- Section 222 currently provides Caribbean countries duty-free treatment on their exports to the US of leather and plastic luggage and flat goods made from 100 percent US components. This is a tariff benefit that Mexico will not have for 10 years after NAFTA is implemented.

(4) Concern that the duty benefits provided by the bill -- on highly import sensitive products that Congress has purposely exempted from CBI duty free treatment -- are provided well in advance of negotiations, which might or might not lead to a free trade agreement with the CBI; and that these duty benefits will be further expanded past those provided during the transition period whether or not a free trade agreement is reached.

Lest there be any question in the mind of the Subcommittee, LLGMA is also opposed to NAFTA. We have been on record as opposing NAFTA ever since the Bush Administration first initiated discussions with the Mexicans about a free trade agreement. Although we worked with US negotiators to establish some minimum safeguards in the NAFTA for our products, LLGMA has never altered its fundamental opposition to NAFTA and its view that it will result in the exodus of US production and jobs in our industry.

To justify providing NAFTA tariff benefits on our products to CBI countries based on a possible diversion of investment from the CBI to Mexico under NAFTA suggests a logic that is slightly askew. Wages in most CBI countries are still lower than Mexico and many Far Eastern countries, which means that the Caribbean will continue to be competitive with these other suppliers in the US market. While there is a legitimate diversion issue, it is not the one that is the subject of this bill -- it is the diversion of US investment and US jobs to Mexico and the Caribbean because of NAFTA and the CBI.

II. The Luggage and Flat Goods Industry is Highly Import Sensitive

Our industry is already import sensitive as a result of a decade of rapid import growth, which caused significant losses of production and employment. While a substantial portion of this import growth has been and continues to be from Far Eastern suppliers, the Caribbean has the potential to become a major supplier with unlimited growth potential. In fact, the Dominican Republic, in particular, is already a major US supplier of our products. In 1992, alone, imports of man-made fiber textile luggage from the Dominican Republic increased by 57 percent. Only one other country, Thailand, experienced a growth rate in excess of this amount for this product in 1992. Moreover, 1992 imports from the Caribbean in the broad category grouping of luggage, handbags and flat goods grew substantially, from just under $27 million in 1991 to over $34 million in 1992, an increase of 28 percent.

According to the Department of Commerce's 1993 US Industrial Outlook, the value of the leather-related industries rose a substantial 20 percent to an estimated $4.2 billion in 1992. By value, the ratio of these imports to apparent consumption rose to 70 percent in 1992, from 66 percent in 1991, and total industry employment declined in 1992. With regard to luggage and personal leather goods, import penetration rose to 57 percent by value in 1992 -- on a quantity basis import penetration would be much higher.

This is a picture of an industry with a substantial import problem, which will not be helped by granting further tariff incentives to countries that are already competitive in our market.

III. Conclusion

This legislation represents the fourth legislative effort in ten years to expand the one-way duty benefits that CBI countries have on their luggage and flat goods exports to the United States. Our industry's response is the same as it has been in the past. We are opposed to it. Most important, however, is the indisputable fact that the tariff benefits already in effect for our products when imported from CBI countries already achieve the intent of the bill. And, in the case of section 222, the duty benefits far exceed what is contemplated by the bill. Thus, there is really no reason for our products to be included in this bill and we ask that they be stricken from coverage under H.R. 1403.

Chairman GIBBONS. Thank you.

Mr. Gundersheim, you mentioned NAFTA in your presentation, and I want to ask you a question about the position of your union on NAFTA.

As you go around Congress and you talk to members and you ask them how do they feel about NAFTA, they will all—many of them will tell you: Well, I have got to see those side agreements.

Would it be fair for me to tell them in response to that: Well, as far as the side agreements are concerned, your union is never going to support NAFTA; is that right?

Mr. GUNDERSHEIM. No, that is not accurate.

Chairman GIBBONS. Well, what could be done in the side agreements that would make your union support NAFTA?

Mr. GUNDERSHEIM. Well, several things have to be done, and I must say that the problem of the side agreements themselves is somewhat limited. Let me explain.

If there were some true system by which the violation of labor rights in Mexico could be rectified by a simple, easy procedure, both within Mexico and/or through using American law or some simple procedure, such as to create a sufficiently strong incentive for the companies in Mexico to adhere to Mexican law and to raise the standards of their own workers, and we saw that within the side agreement, by the way, some way in which the benefits of the investment in Mexico and the increased productivity would be assured to go to the workers, we would not have any problem with that.

Now we think there are some other things that are necessary for the development of Mexico, not just this agreement itself. I mean, you have to do something about the debt that Mexico is facing and the negative flow of total capital coming out of that country. You have to do something about the inequitable distribution of wealth in Mexico, but the Mexicans have to deal with that.

But, no, we can envision a trade agreement with Mexico that we could endorse. And we have been very specific in saying that we will not oppose this agreement until we see what is in it. We have not condemned it out of hand. We have not come up and said: Hey, we—in every one of our testimonies on Mexico, we have said, in a positive fashion, what we would like to see within that agreement. We have never said there is no way you can ever come to a trade agreement with Mexico.

Chairman GIBBONS. Well, I am sorry. I have overlooked it. Can you tell me where in your testimony you have laid down these——

Mr. GUNDERSHEIM. Well, I have not done this—I have done this in our previous testimonies. I will be happy to share them with the chairman and give them to you.

Chairman GIBBONS. Well, I would appreciate it.

Mr. GUNDERSHEIM. And the various comments we have made.

Chairman GIBBONS. I would appreciate it. Thank you.

Mr. GUNDERSHEIM. You are welcome.

Chairman GIBBONS. Mr. Houghton.

Mr. HOUGHTON. Thank you very much.

I would like to just ask a series of questions, but before I do, Mr. Gundersheim, would you please give my very best to Mr. Sheinkman?

Mr. GUNDERSHEIM. I will do so.

Mr. HOUGHTON. He is a close personal friend who I have worked with for many years now on the Labor/Industry Coalition for International Trade.

Mr. Ermatinger, do you have any members of your association that import finished products into the United States?

Mr. ERMATINGER. Yes, a great many of them.

Mr. HOUGHTON. You do. Could you tell me a little bit about them in terms of the essence of what we are discussing here?

Mr. ERMATINGER. Well, I think we have the same experience in our industry as any other. They are in business to make money, and they found that they could manufacture cheaper in the Far East, and for a long time our laws were such that we encouraged such investments in plants overseas.

And the initial argument was the same that you heard earlier from several apparel companies. They started out by saying we just need to supplement our American production with a little bit of import from the Far East. Inevitably those companies became total importers and are such today.

I am not sure if that answered you, or is there something further?

Mr. HOUGHTON. Well, I guess what I am saying is—or reaching for—is this, that, you know, jobs change over the years. I mean, I can cite you examples in my own field where auto glass used to be made by hand shops, and they are just not there anymore. And I know that there was a great feeling that, well, you know, we are letting some of our best skills go out of this country.

But by shifting products, by shifting emphasis in terms of productivity, by having a whole lot of things that are made for entirely different processes, you know, we were able to upgrade and also make a transition.

So net-net, the jobs were increased rather than decreased. And just in looking at your industry, I just wonder whether if you have to have people who you are representing, who do the importing, whether it is better to have them closer to home than out in the Far East?

Mr. ERMATINGER. You mean, is there a benefit to importing from the Caribbean as opposed to China?

Mr. HOUGHTON. Right.

Mr. ERMATINGER. I could see it as an altruistic thing. I do not see it as a practical thing. They go to China not because they like to travel to China, but because the costs are the lowest.

Interestingly, China has a very huge investment from the Taiwanese and the Japanese who are building the factories in China for the luggage.

Mr. HOUGHTON. But if you could have a combination of economic circumstances, not just labor, but in terms of freight and efficiency and tariff benefits and things like that, would it not be better to have—if you had to have it at all, would it not be better to have it closer to home, particularly when Americans are making some of the subcomponents, than it would be over in China?

Mr. ERMATINGER. Yes, and I see your point, Mr. Houghton. I believe that down the line, however, you are going to find that that

will be one of the barriers that will be removed, and we will suddenly no longer have the American content.

When you realize that the tariff levels are going down each year—in our case, because of our import sensitivity, it is over 10 years—but in 10 years, we will not have any more duty. There is no more advantage to having American components.

You heard the testimony of the gentleman from American Tourister that the fabric is much cheaper brought in from China than from America. So this very temporary benefit of having American fabric will disappear within a few years.

The Chinese, with their mentors, the Taiwanese and the Japanese and the Koreans, are very sophisticated in their industry today. They are far, far ahead of anybody in the Caribbean.

I can see almost nothing that is going to encourage a shift from China to the Dominican Republic or anyplace in the Caribbean. I can simply see that being piled on top of the imports from the Far East.

Mr. HOUGHTON. Sure. Well, we certainly do not want to end up as a warehouse for goods we cannot afford to buy, which is one of those things that is always dangling out there.

Let me ask you a specific question, either one of you gentlemen.

You know, if negotiations were required before the benefits were extended to the CBI countries, would you support this bill?

Mr. ERMATINGER. I am not sure I understood you, Mr. Houghton.

Mr. HOUGHTON. If negotiations were required, rather than having it just going lock-step with a NAFTA parallel of a 3-year period of adjustment, if negotiations, further negotiations, such as the chairman has mentioned in terms of these side agreements with NAFTA, were required for the CBI countries, would you then agree to support the bill?

Mr. ERMATINGER. For ourselves, no. We oppose NAFTA as well as this proposal.

Mr. HOUGHTON. OK.

Mr. GUNDERSHEIM. If I could comment——

Mr. HOUGHTON. Yes.

Mr. GUNDERSHEIM. If you add several things to that equation, quite frankly we would. Our union has always frankly felt that economic development in the Caribbean and Mexico, Central America, has been quite deficient and quite an embarrassment to the United States.

Now in order to say we would support this kind of legislation, the concept to give special preferences and incentives for investment in this particular area, you have to guarantee us that you will not support or vote for a Uruguay round. Because if you do, then what is the point of giving incentives? There are no incentives here anymore. So that has to be an equal part of the equation.

Another part of the equation is, you must have a commitment to democratic governments, to the right of maintaining internationally accepted labor standards as set out by the ILO and so on, so that the benefits of trade and the benefits of any potential increase in wealth throughout these countries, does, in fact, serve the function of increasing living standards in these nations.

You have to deal with something with an overall development program that includes not just simple things like investment and

protection of commercial interests, but the human interests that are involved, about the whole issue of how capital flows go back and forth and what to do with the debt.

What do you do about countries that have no semblance of democracy in these countries? What do you do about a country like Panama where evidently the drug trade has increased rather decreased?

I mean, if you want to reward these countries, it has to go in terms of the whole constituent picture of economic development.

Mr. HOUGHTON. Well, now let me just ask a question here.

You cannot do anything about the debt of some of these countries, and we have our own problems with debt. And you cannot do anything about the uneven distribution of wealth. That takes care of itself, or it does not. And a lot of that has to do with the governmental system.

But are you saying that if you really have a true system of enforcing human rights, so that there are no violations, as we see those violations, and also there are benefits going to workers in the same proportion as they are in the United States, that despite the fact that you might be losing because of a lower wage rate jobs to the Caribbean, you would still support this bill?

Mr. GUNDERSHEIM. Under the right circumstances, you are saying we could support it?

I mean, sure, we understand that trade has to take place, and we understand that trade is a necessary means of economic development for the poorer nations. We are not blind to that fact.

The issue is under what conditions it takes place and which nations will benefit and how are you going to reward them.

In an oversimplified way, if I could say it, we do not believe in the most-favored-nation concept, that this is absurd. Certain countries that adhere to roughly the kinds of social and human values that we do, that they ought to be the ones that benefit. And those who do not ought to be left out. There should be created a system whereby the sanctions are so great that there is an incentive created to really result in economic change in those countries.

The fact that you have moved 100,000 jobs into the Dominican Republic since—or however many have been created since the CBI legislation went into effect in the mid-1980s—I mean, we do not see that that has contributed a whole lot to the improvement of the standard of living in the Dominican Republic.

There has got to be a better way of ensuring that that happens. And if that can be crafted—and I admit that in some cases it would be difficult—but we have no objections to seeing some such agreements crafted, absolutely not.

Mr. ERMATINGER. Mr. Houghton, I wonder if I could go back to your question, because I gave more thought to it: Why would we oppose it?

And I wanted to give you the experience of several of our members, very new companies who were becoming quite successful and were unable to get bank loans to expand. But they were told that if they would move to Mexico, they could get the money to invest, because the banks had said: Our Government is promoting business in Mexico; we think you will make more money there; shift your operation there.

This is the kind of experience that we are seeing. The dice are really rolled against domestic manufacturing as things now stand.

And finally, there is something of altruism in the stance we are taking and these companies that are trying to remain domestic manufacturers. They have seen their counterparts in other companies give up domestic manufacturing and make lots of money with imports. They are not losing benefits; rather they are losing the opportunity, and they could solve a lot of problems if they become importers.

So they are trying to save American jobs, and that is part of what we are presenting here. We think that tinkering with tariffs is harming our domestic manufacturing.

Thank you.

Mr. HOUGHTON. Thank you, Mr. Chairman, and thank you, gentlemen.

Chairman GIBBONS. I thank both of you and want to announce that this concludes our joint hearing on H.R. 1403, and our record will remain open for further written statements or correction of any of the current statements until the close of business on Friday, July the 2nd, 1993.

Mr. GUNDERSHEIM. Excuse me, Mr. Chairman.

Chairman GIBBONS. Yes.

Mr. GUNDERSHEIM. We want to make sure that our formal statements are included in the record.

Chairman GIBBONS. Yes, sir, they are. They are.

Mr. GUNDERSHEIM. Thank you.

Chairman GIBBONS. Thank you very much.

Mr. ERMATINGER. Thank you, sir.

[Whereupon, at 2:49 p.m., the hearing adjourned.]

[Submissions for the record follow:]

Written Statement
Of
Ignacio E. Silva
President
American Chamber of Commerce in Guatemala
Comments on H.R. 1403
Caribbean Basin Free Trade Agreements Act of 1993
Prepared for:
Subcommittee on Trade
Committee on Ways and Means
July 2, 1993

The American Chamber of Commerce in Guatemala (AmCham Guatemala) welcomes H.R. 1403, the "Caribbean Basin Free Trade Agreements Act of 1993." We congratulate its author, Chairman Sam M. Gibbons, and its original co-sponsors, Ranking Member Philip M. Crane, Chairman J.J. Pickle, and Chairman Charles B. Rangel, on their vision in drafting this important piece of legislation.

The American Chamber of Commerce in Guatemala was founded in 1967 to promote the interests of U.S. businesses active in Guatemala. Our U.S. corporate members, both large and small, view this legislation as vital to their ability to compete in this increasingly global economy. Over the last decade, U.S. business has seen the veil of protection slowly fall as Guatemala has abandoned inward oriented economic policies for more open, internationally oriented strategies. As a result, U.S. companies have increased their trade and investment in Guatemala which has strengthened their competitive position while buttressing the economic reforms enacted since passage of the Caribbean Basin Economic Recovery Act. However, trade and investment in Guatemala may become imperiled by unintended investment diversion due to the North American Free Trade Agreement. Therefore, passage of H.R. 1403 is of the utmost importance to the membership of AmCham Guatemala.

The early 1980s were difficult years for the American business community operating in Guatemala. As Guatemala has emerged from military dictatorship and civil war, however, the nation has increasingly looked for ways to become competitive in the global marketplace. It has taken steps to take advantage of the Caribbean Basin Initiative (CBI) by making Guatemala a more open and attractive nation for American business and a larger consumer of American products. As a result, when you visit Guatemala's stores today, you will find that the shelves are stocked with products labeled "Made in the USA."

One of the most dynamic opportunities for economic growth that emerged as a result of the CBI program was the textile and apparel industry. Between 1986 and 1990, the industry registered a 95% growth rate. In 1991 alone, this sector grew at a rate of 67.2%, the highest percentage of growth in the world. For reasons including the Multifiber Agreement and the 807A Guaranteed Access Level law, U.S. quotas on textile and apparel entering its market limited the growth of this booming industry to 27% in 1992.

As a result of this consistent annual growth, the textile and apparel industry has become increasingly important to economic growth in Guatemala. In 1986, approximately 5,000 Guatemalans were employed in the textile and apparel industry. By 1992, over 75,000 jobs had been created by this growing industry. This estimate does not even begin to assess the impact that increased commerce has had on the development of complimentary industries in Guatemala, the advances made in technical skills of the typical Guatemalan worker, or the increase in quality of goods and services required by textile and apparel manufacturers.

Yet, as impressive as these job creation statistics may be, trade is a win-win situation that creates jobs in both nations. U.S. exports to Guatemala, which rose 24% in 1992, are estimated to have created 19,000 jobs in the United States. Principal beneficiaries of this trade include Florida, Texas, Louisiana, New York, Georgia, North Carolina, California, and many other states who are active in the CBI region.

Yet none of these economic advances would have been possible without the resolve of the Guatemalan government and the insistence of the business community that the nation join the world trading community. A major step toward inclusion in the world economy was Guatemala's commitment to become a contracting party to the General Agreement on Tariffs and Trade (GATT). The government committed to significant outward-oriented economic policy reforms in order to make this transition. Also, recognizing the trend toward regional integration throughout the world, Guatemala has joined with Costa Rica, El Salvador, Honduras and Nicaragua to form the Central American Common Market (CACM), to allow for free movement of virtually all goods between its member nations.

In addition to making integration commitments with its Central American neighbors, Guatemala continues to take steps which will enable it to join in a fully reciprocal fair trade agreement with the United States and its NAFTA partners:

> As a member of CACM, Guatemala has gone beyond its GATT obligations and set a minimum duty rate of 5%, and a maximum rate of 20%. Also, starting in March 1993, Guatemala and its fellow CACM members adopted the Harmonized System of merchandise trade identification, the universally accepted language of international trade.
>
> Intellectual property rights protection, which is important for fostering innovation and development of new products, has also been upgraded significantly. One of the most important government initiatives toward adopting modern intellectual property rights provisions was the Cable Law of 1992, which addressed a major outstanding issue with intellectual property groups in the United States.
>
> In the realm of labor law, Guatemala has adopted new legislation that provides for additional protection and rights for workers and allows for more modern labor-management relations including the authorization of unions, creation of special courts, and the installation of work inspectors.
>
> The Environmental Law of 1986 established basic rules for the protection of the environment and made important strides to mitigate the effects of economic development on the environment. Guatemala is committed to a strategy of sustainable use of natural resources, and stands out among its Central American neighbors in terms of environmental protection and preservation legislation.

Mr. Chairman, this hearing comes at an opportune juncture in Guatemala's political life given the recent temporary disruption of democratic rule, when former President Serrano attempted to suspend the constitution and dismiss both the Supreme Court and the Congress. Fortunately, Guatemala's political institutions responded quickly to this crisis and democracy was restored.

Guatemala's increased trade dependance with the United States, a direct result of the economic incentives contained within the CBI program, was a critical element contributing to the resolution of this political crisis. Guatemala's business community, including AmCham Guatemala, was able to persuade those within the Guatemalan military who supported Mr. Serrano's self-coup that the disruption of democratic rule would lead to a suspension of Guatemala's CBI benefits--causing irreparable harm to the economy. The United States, largely through the economic opportunities generated by the CBI program, helped maintain Guatemala's democratic system.

But the two most important effects that the trend toward economic reform has had on Guatemala are the formation of an open and market-oriented economy and the evolution of a strengthened and democratic government. This bill is vital to the continued development of both trends, which could be endangered by unintended investment diversion resulting from the NAFTA.

Mr. Chairman, as you can see, Guatemala has made significant strides toward developing a market-oriented economy and a stable political system. This is clearly not the time to

decrease the competitive position of this nation, as it struggles to continue along the path of economic reform and prepare itself to someday join the NAFTA. Now is not the time to punish Guatemala and its fellow CBI beneficiary nations by placing them on an uneven playing field. Instead, AmCham Guatemala firmly believes that by first granting CBI nations parity to NAFTA, and then successfully negotiating free trade agreements, H.R. 1403 lays out an appropriate strategy toward including the smaller economies of the Caribbean in a Western Hemisphere Free Trade Area, and creating a robust economic climate throughout the Hemisphere.

AmCham Guatemala thanks you for holding this important hearing, Mr. Chairman, and looks forward to working with the members of this Subcommittee to advance the passage of this vital legislation.

[BY PERMISSION OF THE CHAIRMAN]

ASOCIACION HONDUREÑA DE MAQUILADORES

Fundada Octubre 29, 1991

San Pedro Sula, Junio 21 de 1993.

Senador SAM M. GIBBONS
2204 Rayburn House
Office Building,
Washington, D.C. 20515-20702

Distinguido Senador Gibbons:

Tengo el honor y el gusto de dirigirme a usted, para expresar el decidido apoyo de la ASOCIACION HONDUREÑA DE MAQUILADORES a los cambios promovidos a través del **"H.R. 1403 Caribbean Basin Free Trade Agreement Act"**. Nuestra Asociación considera que los cambios incluidos en esta nueva legislación son de una importancia relevante para los paises beneficiarios de la Iniciativa de la Cuenca del Caribe, en aras de mantener los beneficios comerciales obtenidos a través de esta Iniciativa, de manera que se estimulen las profundas reformas económicas, llevadas a cabo en nuestras economías.

Al igual que un sinnúmero de instituciones consideramos que la promulgación de estos cambios, evitará que se creen distorsiones entre los beneficios concedidos a los paises de la Cuenca del Caribe, y las ventajas obtenidas por México tras la firma del North-American Free Trade Agreement (NAFTA). Nosotros también somos de la opinión que la aprobación de esta nueva legislación constituirá un esfuerzo importante y una muestra de buena voluntad de los Estados Unidos, por lograr una armoniosa y mas completa integración del hemisferio.

Sin embargo, es nuestra estimación que el período de transición durante el cual se otorga tratamiento NAFTA es muy reducido, por lo cual muy especialmente le solicitamos se considere la extensión de este, de tres a siete años, para así asegurar que nuestras economías reunen satisfactoriamente las condiciones necesarias para la firma de tratados de libre comercio del alcance y naturaleza del NAFTA.

Sin otro particular, le expresamos las muestras de nuestra alta y distinguida consideración

Atentamente,

ING. JACOBO G. KATTAN S.
PRESIDENTE

JDH/mer
File

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Translation - Spanish

ASOCIACION HONDURENA DE MAQUILADORES
Founded October 29, 1991

P.O. Box 2658
San Pedro Sula, Honduras
June 21, 1993

Senator Sam M. Gibbons
2204 Rayburn House Office Building
Washington, DC 10515-70702

Distinguished Senator Gibbons:

I have the honor and pleasure of writing to you, in order to express the resolute support of the ASOCIACION HONDURENA DE MAQUILADORES [Honduran Association of Maquiladora Employers] for the changes promoted through the H.R. 1403 Caribbean Basin Free Trade Agreement Act. Our Association believes that the changes included in this new legislation are of great importance for the countries benefitting from the Caribbean Basin Initiative with a view to maintaining the trade benefits obtained through this Initiative, so that the deep economic reforms carried out in our economies will be fostered.

Just like countless institutions, we believe that the promulgation of these changes will prevent the creation of distortions between the benefits granted to the countries of the Caribbean Basin and the advantages obtained by Mexico after the signing of NAFTA. We are also of the opinion that the approval of this new legislation will constitute an important effort and a sign of good will on the part of the U.S. in order to achieve a harmonious and more complete integration of the hemisphere.

Nevertheless, it is our opinion that the transition period during which NAFTA is granted treatment is very short, so that very especially we ask you to consider its extension from three to seven years, in order to thus ensure that our economies will satisfactorily meet the conditions necessary for the signing of free trade agreements of the scope and nature of NAFTA.

With our best wishes,

Jacobo G. Kattan S.
President

Translated by
Deanna Hammond
CRS - Language Services
July 21, 1993

SUBMISSION OF DR. J. MARK WERNER
VICE PRESIDENT, CENTRAL AMERICAN REGION
ASSOCIATION OF AMERICAN CHAMBERS OF COMMERCE OF LATIN AMERICA
TO THE SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
ON H.R. 1403, THE CARIBBEAN BASIN FREE TRADE AGREEMENTS ACT
JUNE 30, 1993

On behalf of the American Chambers of Commerce of Central America, which comprise Costa Rica, Guatemala, El Salvador, Honduras, Nicaragua, and Panama, I am pleased to submit this statement in support of H.R. 1403, the "Caribbean Basin Free Trade Agreements Act." The purpose of H.R. 1403 is to ensure that countries that are beneficiaries of the Caribbean Basin Initiative are not unintentionally harmed by NAFTA. Such harm could occur because NAFTA will extend more beneficial treatment to Mexico for certain crucial non-traditional Central American export products, many of which are co-produced with U.S. firms using U.S. components and equipment. In addition, H.R. 1403 provides for eventual accession to NAFTA by Central American countries, or negotiation of separate free trade agreements. Linking temporary concessions to such negotiations will help consolidate the process of economic reform in the region, including protection for private property and investment, both domestic and foreign.

As representatives of American companies in Central America, AmCham members can attest to the success of the Caribbean Basin Initiative both for the region and for the United States. Under CBI, nearly all products from Central American countries enter the U.S. duty free. Repeated studies by the U.S. International Trade Commission and U.S. Labor Department have found no adverse impact on U.S. industry or jobs as a result of this trade. In fact, the U.S. has maintained a larger and more consistent trade surplus with the Caribbean Basin region, which includes Central America, than with any other region in the world.

NAFTA presents challenges and opportunities to Central America. Ultimately, the actions of the region's governments themselves will determine to a large extent whether their countries will prosper or find themselves disadvantaged. It is encouraging that most, if not all, Central American countries seek to emulate Mexico's model of economic opening, privatization, and integration. American business will reap the benefits if Central America opts for greater competitiveness when faced with the challenge of an integrated North American market.

CBI has also helped promote political and economic opening in beneficiary countries. A major objective of the program was to encourage non-traditional export industries in order to revitalize stagnant economies and combat political instability. All Central American countries are now democracies, and the recent failure in Guatemala of a bid to return to military rule was largely ascribed by U.S. officials and others to the private sector's desire to retain U.S. trade preferences and close ties to the United States. CBI countries are also encouraged, through eligibility criteria, to respect intellectual property rights, private investment, internationally recognized labor rights and standards and other conditions.

The positive impact of CBI on Central America, as well as the potential for future progress, could be undone without the temporary concessions proposed in H.R. 1403. Likewise, the ability of Central American countries to eventually take on deeper obligations by acceding to NAFTA or entering into free trade agreements with the United States would be compromised without the parity granted in the "Caribbean Basin Free Trade Agreements Act."

This is because CBI trade preferences are not extended to some of Central America's most important products, including apparel, footwear and leather goods. Most apparel made in the region is assembled from U.S. fabric cut and formed in the United

States. These products receive special quota treatment under the U.S. Guaranteed Access Level program, but remain subject to duties on the CBI value-added. Yet the proposed NAFTA offers comparable Mexican products immediate duty-free and quota free treatment under the so-called Special Regime. In addition, preferential duties will immediately apply to other Mexican textile and apparel, including a certain amount of product not qualifying for NAFTA origin rules. Mexican textiles, yarns and fibers will also qualify for NAFTA duty and quota breaks. Although these include important Central American agricultural commodities, we receive no trade preference for these products, and will face a severe competitive disadvantage with Mexico once NAFTA takes effect. Finally, Mexico will also gain immediate duty breaks on footwear, leather goods, and other products excluded from CBI.

Without equivalent treatment for Central American countries, co-production industries that help U.S. producers compete against third country imports in the U.S. market could be threatened, with corresponding devastating effects on Central America's non-traditional export sector.

H.R. 1403 proposes that CBI countries receive treatment equivalent to NAFTA for a three year period, and provides for fast track negotiations of free trade accords, either through NAFTA accession or individual trade agreements. It instructs the U.S. Trade Representative to explore the possibility and timetable for such agreements.

The temporary extension of benefits combined with this presumption of reciprocal trade agreements will no doubt strengthen Central American countries' resolve to institute macroeconomic and trade reforms. A key objective of U.S. business in the region is the strengthening and institutionalization of private property rights. As with Mexico, recognition of the need to attract foreign investment combined with extensive reciprocal trade negotiations should serve to reinforce protection for private property and investment in Central America. Other benefits for U.S. business arising from the process set forth in H.R. 1403 include greater protection for intellectual property rights and expanded market access.

Private property rights generally is a very important issue for American businesses operating throughout, but particularly in Honduras and Nicaragua. Further, the Office of the U.S. Trade Representative as well as several business organizations have identified several Central American nations as needing improvement in their intellectual property rights regimes. The U.S. International Trade Commission, in its 1992 report on "U.S. Market Access in Latin America: Recent Liberalization and Remaining Barriers," identified Costa Rican barriers to foreign investment in telecommunications, business and professional services, as well as high import barriers on agricultural products and motor vehicles. These and other issues must be addressed before full free trade agreement negotiations with the United States are possible.

The process that would be established by H.R. 1403 also ensures that the U.S. will have a central role in the integration of the Americas, which is proceeding apace. Central America is rapidly moving toward economic integration of the Central American Common Market, with accelerated trade liberalization between the so-called Northern Tier countries of El Salvador, Guatemala, and Honduras. In addition, Central American countries have embarked on negotiations for asymmetrical free trade agreements with Mexico, Venezuela and Colombia.

To conclude, on behalf of the American Chambers of Commerce in Central America, I urge enactment of H.R. 1403. The bill should take effect simultaneously with NAFTA on January 1, 1994.

TESTIMONY OF ANTHONY T. BRYAN
DIRECTOR OF THE CARIBBEAN STUDIES PROGRAM,
NORTH-SOUTH CENTER
UNIVERSITY OF MIAMI, CORAL GABLES, FLA.

I. STATEMENT OF PURPOSE

The purposes of this statement are as follows: First, I wish to indicate briefly some of the effects that the North American Free Trade Agreement (NAFTA) is likely to have on the economies of the Caribbean Basin region. Second, I shall argue that the transition bill known as the "Caribbean Basin Free Trade Agreements Act," which extends parity with NAFTA to the countries of the Caribbean Basin region, ought to be viewed favorably by this Subcommittee and the Congress.

The countries of the Caribbean have traditionally enjoyed and grown dependent on preferential trading access to metropolitan markets. This was the case under colonial mercantilist regimes as well as in the context of unilateral agreements such as the Caribbean Basin Initiative (CBI) and Caribbean-Canadian Agreement (CARIBCAN). With the world no longer ordered around a bi-polar ideological struggle, U.S. strategic interest is no longer the underlying motivation for insuring the economic and political stability of the Caribbean. There is widespread agreement among economists and policy makers that free trade based upon comparative advantage is a positive sum game that results in increased world output and gains in standard of living. Advanced economies around the world are now making the difficult internal adjustments to a post Cold War era. The countries of the Caribbean are also having to adjust to a world that has shifted its focus from ideology to economic survival and which is now centered around free trade and comparative advantage. The small developing countries of the Caribbean in particular, must be welcomed into this new order and provided with assistance in the transition to open trading systems.

The adverse effect of free trade on import-competing groups in the Caribbean must not be allowed to deter trade liberalization. Initial constrictions on income distribution must be dealt with by appropriate domestic adjustments and social welfare packages--and not by protectionism. The Caribbean Basin Free Trade Agreement Act offers a transitional arrangement that will provide the countries of the Caribbean with the time and economic support necessary to become successful members of the emerging regional and global order.

II. IMPACT OF THE NAFTA ON THE CARIBBEAN BASIN ECONOMIES

NAFTA has certain clear implications in trade, investment and other areas -- all resulting in the contraction of economic activity in the Caribbean region. More specifically, the following are cited as the major economic effects of the NAFTA on the Caribbean region:

- trade diversion which will result in a reduction of exports from the region;
- investment diversion away from the region;
- relocation of production capacity away from the region.

A. Trade Diversion

Under the CBI and CARIBCAN agreements, Caribbean Basin countries enjoy one-way preferential treatment for import access to the U.S. and Canadian markets. Under a NAFTA agreement these preferences would have to be shared with Mexico. The U.S. Trade Representative's Office has estimated that $4.5 billion, or 60 percent of U.S. imports from CBI countries in 1990, would be put at a competitive trade disadvantage as soon as the NAFTA begins to be implemented.

The NAFTA raises a major concern that increased Mexican access to the U.S and Canadian markets will erode the preferences enjoyed by Caribbean countries in those markets, offer advantages for those products excluded from the CBI and CARIBCAN arrangements, and also benefit Mexico through the elimination of quotas and other non-tariff barriers in which Caribbean exports do not enjoy similar access. Caribbean exports to North America would therefore face increased competition from Mexico, which would reduce foreign exchange for these highly export dependent economies, and consequently raise the prospect of increased domestic unemployment with attendant social unrest. The main areas of concern are assembly industries (predominantly apparel and electronics), horticultural products, sugar and rum.

As U.S. trade barriers to CBI products begin to fall for Mexico, the playing field will be levelled and Caribbean countries will be required to compete on a free-market basis. In such an arena, Mexico's factor and competitive advantages give it a significant edge over the CBI countries. The trade relationships of Caribbean countries would be on a reciprocal basis and their industries would face severe competition from larger and more efficient ones in the NAFTA generally. Already local Caribbean manufacturers are concerned about their ability to survive the trade liberalization policies being implemented in their countries and are warning of business closures. NAFTA origin rules are also more stringent than CBI rules and would present an additional constraint for these relatively resource-scarce economies.

B. Investment Diversion

Caribbean economies are highly dependent on foreign investment in view of their low levels of domestic savings. Such investment is also seen as a vehicle for the transference of technology and know-how in a number of other areas. It is assumed that Mexico will attract a greater share of new foreign investment that would normally come to the area as a whole.

Caribbean countries may face tough competition from Mexico for investment funds since wages in Mexico are lower than in most Caribbean countries, and the size of Mexico's domestic market is larger than that of the Caribbean. In addition, Mexico is in closer proximity to North American markets, and its current production base now offers greater security for investment and market access into North America. Although the CBI and CARIBCAN are permanent programs, they can still be subject to changes in product eligibility and other areas through congressional or administrative fiat because they are not the result of negotiated agreements. Apart from concerns about Mexico's attractiveness to new investment, there are also concerns

that firms already established in the Caribbean might wish to relocate to that country. Indeed, there is evidence that even as NAFTA was being negotiated some investments already programmed for Caribbean countries were scrapped, while others were put on hold.

C. Relocation of Production Capacity

Although Mexico is a rival of the Caribbean countries in tourism services, manufacturing, and data services, the specific area most fearful of losing out under the NAFTA is the textile and textile products industry. The United States International Trade Commission (USITC) has predicted that the textiles and apparel sectors will suffer the greatest shift in production and investment from the Caribbean region to Mexico. In spite of the fact that textiles are not covered under the CBI and GSP conditions, they have sustained high growth rates over the past ten years and have contributed significantly to employment creation in the Caribbean. The NAFTA will pose serious adjustment problems for the Caribbean countries since Mexican textiles and apparel will benefit from a progressive reduction tariff over a ten-year period. Textiles are the most significant among many of the region's exports which are not covered under the CBI or the GSP and will therefore have to compete for the U.S. market under unfair conditions when NAFTA is in force. Even an across the board level access to U.S. markets might not directly threaten Caribbean countries, but it is feared that when forced to compete with larger more competitive countries they will fall short on other grounds.

III. CBI PARITY WITH NAFTA

For all these reasons, Caribbean countries have been placed on the defensive about the NAFTA. They are ill-prepared to face the challenges of the new era, given their generally weak economic performance in the past and the speed with which the NAFTA process has advanced. A NAFTA without parity for the Caribbean countries will most certainly mean economic distress for the region. Parity is the transition mechanism leading to either accession to the NAFTA or the negotiation of bi-lateral trade agreements between Caribbean countries and the U.S.. Therefore the bill entitled: "The Caribbean Basin Free Trade Agreement Act", introduced by Congressmen Sam Gibbons- D. Tampa (and the Senate version sponsored by Senator Bob Graham- D. FL), by offering limited parity, gives the countries of the Caribbean region an opportunity to make the transition from dependency on the provisions of the CBI to eventual accession to an expanded free trade area. If the countries of the region are given transitional parity and do accede to an expanded NAFTA, they will be provided with an immensely enlarged market for their goods and services and with considerably enlarged economies of scale for the production of certain goods. Moreover, this bill would provide a much more secure investment environment in the Caribbean region because accession to an expanded NAFTA would be a contractual agreement in the form of a treaty. In sum, such a transitional arrangement will also enable the economies of the CBI region to complete their process of economic reform and structural adjustment and will stimulate economic growth in the short-run. This will enable the CBI countries to move toward full membership and reciprocity in an expanded NAFTA.

The projected economic cost to the members of NAFTA for parity for CBI countries would be very little. Even the GATT recognizes that developing countries should be treated more favorably. Unfortunately some trade officials in the previous US administration characterized the parity proposal and access without reciprocity as unrealistic and were not prepared in the U.S-CARICOM framework agreement to accommodate any reference to different levels of development. What seems even more unrealistic is the expectation on the part of the U.S. that Caribbean countries be expected to survive economically without adjustment time and transition mechanisms to carry them into the world of hemispheric free trade. The Caribbean Basin Free Trade Agreements Act would provide time to enable Caribbean countries to maintain the momentum for economic reform and other domestic preparations as well as the mechanism whereby eventual accession to an expanded NAFTA can be achieved.

Even if Congress supports this bill, a solution to the Caribbean's problems will still be elusive. A three-year grace period is too short. But in the present context Caribbean countries are required to undertake drastic domestic economic restructuring that would place emphasis on sectors in which international competitiveness can be achieved while drastically downsizing others that constitute an economic drain. The result will be major domestic dislocations; but the alternative is a slow economic death.

IV. SUB-REGIONAL INTEGRATION

The formation of regional free trading blocs around the world and in particular, the prospects of a NAFTA, have stimulated further economic integration both within the Caribbean Community (CARICOM) and the Central American Common Market (CACM). Integration fervor has caught hold in all of Latin America as export-oriented development strategies take root and the NAFTA comes closer to becoming a reality. NAFTA members themselves are deepening their ties to the Caribbean and Central American countries. Mexico and Central America have called for a free trade arrangement by 1996 and the U.S. has entered framework agreements with the CARICOM group and with individual Central American countries. The CACM, which had granted duty-free status to nearly 95 percent of trade during the 1960s, regained momentum in July 1991 as a result of greater political stability being established in the region. CARICOM member states have also made important headway in their attempts to establish a Common External Tariff by phased reduction which began in January 1993. In October 1992, CARICOM also signed a trade agreement for unilateral access to the Venezuelan market until 1998. Recently Colombia has indicated its intention to enter into negotiations with CARICOM on a similar agreement. The San Pedro Sula Agreement of Collaboration holds out the possibility for the formation of a Caribbean Basin Free Trade Agreement that, with a population of 50 million and a combined GNP of $50 billion, would give the region "critical mass" in economic aggregate.

Sub-regional arrangements have the short-run benefits of increasing trade and domestic economic activity and offer the long-run hope of being the vehicle by which accession is made to a hemispheric free trade area. The potential benefits of sub-regional integration among

Caribbean Basin countries far outweigh the dangers as these arrangements move these countries forward in their internal macroeconomic adjustments and prepare them for membership in an expanded NAFTA.

V. BENEFITS OF PARITY TO THE UNITED STATES

The U.S. has a large stake in the stability and prosperity of the Caribbean Basin region. The disappearance of strategic cold war interests in the region should not blind policy makers to the problems which result from economic neglect. For if neglected the U.S. will eventually feel the ripple effects through loan defaults, lower exports, a flood of drugs, political and social unrest threatening to democracy, increased demand for foreign aid to assist their failing economies, and waves of immigrants.

It is estimated that purchases of U.S. goods by Caribbean Basin countries grew to $11 billion in 1992, from $340 million in 1986, and helped to maintain more than 200,000 trade related jobs in the US. Caribbean Basin exports to the US have increased by almost 50% during the last 6 years. The Caribbean region is one of the few regions of the world in which the US runs a trade surplus. In addition, US foreign aid to the region has steadily decreased, from $1.9 billion in 1985 to $827 million in 1992 at the same time that US trade with the region has increased dramatically. The Caribbean Basin is currently the 10th largest market for US products.

Parity with NAFTA is a significant positive step toward ensuring that the Caribbean Basin countries have time to prepare and receive the support necessary to become successful members of the emerging regional and global economic order. It will help to ensure that the mutually beneficial US-Caribbean trade partnership continues.

BUTLER

CARIBBEAN BUILDING SYSTEMS LIMITED

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[BY PERMISSION OF THE CHAIRMAN]

Ways and Means Committee
Trade Sub-Committee
US House of Representatives
Washington, D.C. 20515

June 30, 1993

By Fax

Attention: Representative Sam Gibbons
Chairman

Dear Sirs:

Re: Gibbons Bill HR 1403
CBI-NAFTA Parity Bill

As a concerned business enterprise in Jamaica we are writing to give our full endorsement to the above referenced bill.

This bill is necessary to the survival of Jamaica and other Caribbean Basin countries in order to keep us competitive with our exports to the United States and Canada.

This bill if passed will allow Jamaica and other Caribbean Basin countries duty free access to the United States during the first three years of NAFTA on goods denied preferential treatment under already existing agreements. Also during the next three years if parity is granted it will allow Caribbean Basin countries time to negotiate free trade with NAFTA members while at the same time allow trading parity with Canada. Mexico and the United States.

It is imperative to the welfare of all Caribbean Basin countries that this bill be passed for us to remain competitive.

Yours very truly,
For and on behalf of
CARIBBEAN BUILDING SYSTEMS LTD.

fpc Paul Chang

Paul F.X. Chang
Managing Director

/lmc

DIRECTORS: Douglas I. Brandon (Chairman), Paul F.X. Chang (Managing Director), Thalia G. Lyn, Anthony V. Chang, James C. Chen

[BY PERMISSION OF THE CHAIRMAN]

CARIBBEAN SHIPPING ASSOCIATION

5-7 King Street, Kingston 15, Jamaica

July 6, 1993

The Honourable Sam Gibbons
Chairman
Subcommittee on Trade
House Ways and Means Committee
1136 Longworth House
United States House of Representatives
Washington D.C. 20515

Re: H.R. 1403, The Caribbean Basin Free Trade Agreements Act

Dear Mr. Chairman,

The Caribbean Shipping Association represents 108 companies througout the Caribbean involved in the movement of cargo within the region and to the United States. Our Association is of the view that the introduction of the North American Free Trade Agreement in its present form would create immense competition for those items which now make up the bulk of our cargo. The introduction of H.R. 1403, The Caribbean Basin Free Trade Agreements Act is therefore a measure which has the full support of our Assosciation.

We have taken note of the fact the during the years since the introduction of the CBI, while Caribbean exports to the United States have grown, the levels of U.S. exports to the Caribbean have grown at an even greater rate. While we see this as being indicative of the type of relationship which the measures embodied in H.R. 1403 could help us to sustain, we would wish t o see further growth in export from the region to the U.S.

H.R.1403 represents an opportunity for the Caribbean to avoid the potential adverse effects of NAFTA and to continue to expand the levels of trade between the countries of the Caribbean and the United States which is now working to our mutual benefit.

Yours sincerely,

Alvin Henry
Executive Vice President
Caribbean Shipping Association

CARTER
FOOTWEAR, INC. 1167 N. Washington St. / Wilkes-Barre, PA 18705 / 717 824-2434

July 2, 1993

The Honorable Sam Gibbons
Chairman
Subcommittee on Trade
House Ways and Means Committee
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Gibbons:

Carter Footwear has previously written to express support for H.R. 1409, the Caribbean Basin Free Trade Agreements Act.

Following your June 24th hearing on the bill, we wish to reiterate our support for that measure and, at the same time, emphasize the importance of preserving the existing CBI program until NAFTA benefits are fully phased-in. This is particularly true with regard to Section 222 of the Customs and Trade Act of 1990, a provision that permits duty-free treatment of finished footwear from the Caribbean if the footwear is produced with U.S. materials and components.

After hearing the testimony delivered at the July 24 hearing, we find it necessary to comment on this provision. A number of statistics were bandied about to support the notion that Section 222 has somehow led to the demise of the U.S. footwear industry. Misleading statements were made to imply that this debate somehow pits U.S.-made footwear against footwear made in the Caribbean. Some very important details have been left out. For example:

- Representative Olympia Snowe cites figures that show an increase in finished footwear from the Caribbean from 2.5 million pairs in 1990 to 6.6 million pairs in 1992. However, she neglected to mention that the number of shoes from the Caribbean is dwarfed by the total number of footwear imports into the U.S., which totalled 1,239,000,000, with the overwhelming majority of these imported shoes coming from the Far East. In other words, only about 1/2 of 1% of the footwear imports into the U.S. are from the Caribbean.

Representative Charlie Rose points to Carter Footwear as one of two U.S. companies who has closed plants and increased its presence in the Caribbean. Again, this selective use of statistics distorts what is happening in the U.S. footwear industry. Many footwear manufacturers have closed plants or scaled back their work force in recent years due primarily to the massive and unrelenting flood of imports from China and the Far East. From 1987 to 1991, imports from China alone soared from 80 million pairs to 559 million pairs -- a 599% increase. For Carter Footwear, who produces an affordable brand of footwear with rubber soles and canvas uppers (commonly known as "sneakers") that directly compete with China-made footwear, the impact of these imports during the 80's has been staggering. We, like many other footwear companies throughout the country, have been forced to close plants and lay-off workers just to survive. This would have occurred whether or not Section 222 was passed in 1990.

Because of Section 222, however, we now stand a chance of being able to meet the competition. If anything, Section 222 will enable us to remain a viable U.S. company, ultimately helping to preserve U.S. jobs.

Perhaps the most glaring omission from Representative Rose's statement is the fact that Converse is actually a significant importer of footwear from the Far East. It is our understanding that Converse may import as much as five times the number of shoes that they manufacture in the U.S. It was, therefore, somewhat ironic for Representative Rose and some Subcommittee members to deplore those companies looking for "cheap labor" in the Caribbean, while at the same time, a plant in his own district relies heavily on imports from the Far East.

Converse is not alone, however. Many of the opponents of Section 222 are themselves large importers from the Far East. It is important for Congress to recognize the underlying currents in this debate over Section 222. It is not a matter of the U.S. footwear industry versus footwear imports. In many respects, this is a case of U.S. companies who import from the Far East trying to protect their competitive position against other U.S. companies who are involved in the CBI. While it may have more appeal for opponents to characterize it in other terms, this is the underlying reality that forms the battle lines of this discussion.

Both Representative Rose and Representative Snowe eloquently described the problems of the U.S. footwear industry, but unfortunately they have identified the wrong villain. Today, we are looking at an industry that has been besieged for over a decade by footwear imports from the Far East. This is an industry where imports account for 87% of the U.S. nonrubber footwear market and 76% of the rubber footwear market. The solution is not the elimination of Section 222, when Caribbean imports are only a very small fraction of the total picture, particularly since Section 222 is the only tool that has been given to U.S. industry to win back business from the Far East. If anything, removal of Section 222 would shift more footwear production to the Far East, with a corresponding negative impact on U.S. jobs. Because Section 222 requires finished footwear to be made of U.S. materials, it does impact favorably on U.S. jobs. It is estimated that, for every 400 jobs in the Caribbean footwear industry, approximately 100 jobs are created in the U.S. to support and supply these operations. This is not the case, however, if that same footwear production were to be performed in China.

I fully understand and agree with Representative Rose and Representative Snowe's desire to stem the tide of footwear imports and I know they are sincere in wanting to protect what remains of the domestic industry. But restricting finished footwear imports made in the Caribbean from U.S. materials is not the answer.

If the government wants to take some meaningful action to prevent any greater erosion of the domestic industry's market share, one solution might be to cap all imports at the current level and permit a specified percentage of the imports to come from the Caribbean countries. Or, an even more effective step would be to rollback the number of footwear imports to a level that will enable the domestic industry to rebuild itself. Absent such steps, however, it is absurd to target Caribbean finished footwear imports as the culprit when they clearly are not. To pretend that the elimination of section 222 will save the U.S. footwear industry only masks the real issues before us.

Mr. Chairman, we urge Congress to maintain the existing CBI program, including Section 222, as the benefits of the NAFTA-parity bill are phased in and negotiations are undertaken with the Caribbean countries.

Sincerely,

Howard Gonchar
President

SHELDON & MAK
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July 1, 1993

Via Federal Express

Committee on Ways and Means
U.S. House of Representatives
1102 Longworth Building
Office Building
Washington, D.C. 20515

Attention: Janice Mays, Chief Legal Counsel and Staff Director

Re: Comments in Support of H.R. 1403, the
"Caribbean Basin Free Trade Agreements Act"
Sheldon & Mak File No. 4113.93

Dear Ms. Mays:

Our client, Castelton Holdings, Inc. ("Castelton"), currently produces labels in the United States. While printing is done here, finishing operations such as cutting are done in the Dominican Republic. These labels are then shipped to the United States, Canada, and Mexico for use on containers for Castelton products.

Castelton's offshore operation enables increased label production in America since finishing costs are substantially lower. Without these savings, label manufacturing operations would have to be totally shifted offshore since it would not be economical to continue to produce labels in the United States. The foregoing approach enables Castelton's United States operation to remain competitive in the face of labels that are produced completely overseas. Thus, United States production could grow 11% from 1993 through 1996.

Currently, the finished labels face import duties of 10% and 11% for Mexico and Canada, respectively. It is therefore difficult for Castelton to ship its labels into Canada and Mexico. This provides an inducement to move label production offshore. However, Dominican Republic accession to NAFTA would remove these barriers. The sooner the Dominican Republic accedes to NAFTA, the sooner these labels will be able to enter duty-free. This should assure continued growth for United States production.

Having carefully reviewed H.R. 1403, we believe that it would be useful to supplement this bill by adding a requirement that Caribbean origin be treated in the same way as NAFTA origin at the earliest opportunity possible. Even in the absence of negotiating a full-scale free trade agreement with the Caribbean, Canada, Mexico, and the United States could still agree that the origin of co-produced Caribbean merchandise be treated identically as that of NAFTA member countries. For purposes of origin rules, United States and Dominican Republic production would then be treated the same way. This would mean that the subject labels fall squarely under NAFTA. The United States should immediately undertake such negotiations with its Canadian and Mexican trading partners. We would also hope that free trade agreements could be negotiated for incorporation of CBI nations into NAFTA sooner than the three years foreseen in your bill. Such an approach would clearly benefit many American products that are co-produced with these countries. This would allow labels produced by American labor, with mere finishing in the Dominican Republic, to enjoy the benefits of duty-free entry under NAFTA.

It is respectfully submitted that facilitating the extension of NAFTA benefits to CBI countries is clearly in the best interest of the American economy. And, it is notable that value added in the Dominican Republic is only about 10%

so, very little has been given up in terms of United States jobs thus far. On the other hand, this creates substantial job and tax revenues here. For all of the foregoing reasons, Castelton fully supports passage of H.R. 1403.

If you have any questions, do not hesitate to contact the undersigned. Thank you for your kind attention.

Very truly yours,

SHELDON & MAK

By _____
Steven B. Lehat

SBL:mel

Costa Rican - American Chamber of Commerce ®
Apartado 4948 -1000 San José, C R. Tel.: 20-2200 Fax (506) 20-2300

SUBMISSION OF THE
COSTA RICAN - AMERICAN CHAMBER OF COMMERCE

To the

House Ways and Means Trade Subcommittee

Re.: H.R. Bill 1403

July 25, 1993

U.S. legislation and policy in recent years have done much to stabilize the Caribbean/Central American region politically and economically, and have turned this neighboring area into an excellent client for goods and services with a net positive balance of payments for the U.S. and an increase in the number of U.S. jobs to support such exports.

H.R. 1403, The Caribbean Free Trade Agreements Act, deserves your support to sustain this positive development.

As the representative of both large multinational American business interests and smaller private U.S. companies in Costa Rica, as well as Costa Rican businesses that import U.S. products, we join other regional chambers in asking for your positive consideration and support of this bill.

The results of enacting this bill will be consistent with the beneficial results obtained from previous legislation (Caribbean Basin Initiative I and II, also known as CBI's I and II). There has been a net increase in U.S. jobs as a result of increased trade with this region, and the military, political, economic and social conditions prevalent today in the area have greatly improved over the war-torn, economically chaotic scene of a few years ago. It is important to note that the U.S. textile and apparel industry, which opposed CBI I and II, now fully supports H.R. 1403.

Enactment of H.R. 1403 will assure that the economic, political and social gains derived in the Caribbean and Central America through CBI I and II will not be eroded by unintended consequences of NAFTA and other trade liberalization measures with Mexico.

Much remains to be accomplished, but most of it can now be furthered through equitable trade arrangements and opportunities rather than through the costly military and economic support of the past.

This legislation will continue the thrust of encouraging countries in the region to assume full obligations of a regional trading system within the global framework which will continue to open markets to American goods, services and investment. This is consistent with U.S. objectives of ensuring a "level field" for trade.

Our bi-national chamber has been active and successful in encouraging modifications in existing Costa Rican legislation to enhance and protect U.S. trading interests. As an example, we are now engaged in dialogue with the Government of Costa Rica regarding improvement in protection of Intellectual Property Rights (author's copyrights, patent rights, etc.). H.R. 1403 contains provisions designed to require local governments to comply with all of the requisites to qualify for a free trade agreement. Such compliance is in the best trading interests of the United States and will continue the trend of creating U.S. jobs as U.S. products, services and investments flow into Costa Rica and the rest of the basin.

A specific example of what can be achieved is the successful drive by the U.S. Embassy and AmCham Costa Rica to eliminate discrimination in the local market against U.S. vehicles. Not only are we seeing more U.S.-made vehicles on the streets, but dealerships of U.S. cars are resurging after an absence of over 20 years. This type of progress is only possible with the type of leverage that comes from constructive relationships which

evolved from CBI and will be improved with the proposed House bill. The new equality of opportunity for U.S. vehicles has allowed Costa Ricans to exercise their natural inclination to buy U.S. made goods. It is evident that given equality of treatment and encouragement, the U.S. share of the Costa Rican regional market will increase in step with economic development of the country and the region.

This is not a partisan issue.

David Mulford, former Under Secretary of the Treasury for International Affairs under Bush, recently stated that "Latin America is the best customer we have for restoring domestic economic growth. It is returning to strength at a time when Europe and Japan are in recession and you should be very much aware of the fact that Latin America is contributing to Main Street America creating jobs and economic activity," he said.

President Clinton has made it clear that NAFTA is a priority for his administration and that it should be extended to other countries in Latin America. In his late April press conference he said unequivocally that the U.S. stood much to gain from a fair agreement that would integrate U.S. trade not only with Mexico but would go on to include Chile and other markets in Latin America. Ron Brown, U.S. Secretary of Commerce, has come out in support of NAFTA and the concept of extending the free trade zone all the way through Latin America.

As we request your support for H.R. 1403, we urge you to remember that the high standard of living enjoyed in the United States of America, as compared with most of the world, is the result of open markets which allow U.S. citizens to enjoy the benefits of international free trade and worldwide competition.

Sincerely,

James S. Dahlstrom
President

Statement by the Honorable Phil Crane
June 24, 1993

Mr. Chairman, I would like to thank the witnesses for joining us today to review the benefits of the Caribbean Basin Economic Recovery Act and its relationship to the proposed NAFTA Agreement.

First proposed by the Reagan Administration in 1982, the CBI program was based on the understanding that the U.S. has a special responsibility to help the small island economies in our hemisphere. Because of the Caribbean's close proximity to the U.S., Congress agreed that it was in the best interest of the U.S. to encourage the development of strong democratic governments and healthy economies in the countries of the Caribbean. We must watch that the value of our commitment is not eroded over time, as we pursue new trade policy objectives.

Our experience with the CBI program has served to illustrate the job-creating benefits to the U.S. economy of building closer economic ties with countries in our region of the world. You can be sure that if CBI had not been a success, no thought would have been given to pursuing the historic effort at economic integration with Mexico and Canada. In many ways, CBI was the first cautious step toward the larger bipartisan effort to unite our hemisphere for the purposes of increasing trade and economic activity.

As implementation of NAFTA moves to the forefront of this Committee's legislative agenda, it is very important that we examine the impact that NAFTA will have on our neighbors in the Caribbean. Mr. Chairman, I look forward to today's testmony.

OFFICE OF COMPTROLLER
DEPARTMENT OF BANKING AND FINANCE
STATE OF FLORIDA
TALLAHASSEE
32399-0350

GERALD LEWIS
COMPTROLLER OF FLORIDA

MAY 17 1993

May 11, 1993

The Honorable Sam Gibbons
Member of Congress
2204 Rayburn House Office Bldg.
Washington, D.C. 20515

Dear Congressman Gibbons:

I am writing this letter to express my support for H.R. 1403, the Caribbean Basin Free Trade Agreements Act, which was recently introduced by Representative Sam Gibbons.

Representative Gibbons, as well as the other co-sponsors of this proposed legislation, realizes, as I do, that Congress must ensure that the implementation of the North American Free Trade Agreement (NAFTA) does not adversely affect the Caribbean Basin Initiative (CBI). With its implementation, NAFTA could divert new investment and trade away from CBI countries and into NAFTA countries.

The continued well-being of Florida's economy is significantly linked to the economies of the Caribbean region. CBI countries account for over 30% of Florida's exports and for 20% of the state's imports. Passage of the Caribbean Basin Free Trade Agreements Act will ensure a continuation of this beneficial economic relationship.

Thank you for your consideration of this matter.

Best personal regards.

Sincerely,

Gerald

GERALD LEWIS

GL:fmcd:cr

[BY PERMISSION OF THE CHAIRMAN]

INDUSTRIAL COMMERCIAL DEVELOPMENTS LIMITED
7-9 HARBOUR STREET, KINGSTON JAMAICA - CABLES: DEVELOP TELEX: 2120 TELEPHONE: 922-6670 FAX: 809-922-0256 809 92 1 947

June 28, 1993

Congressman Sam Gibbons
Chairman of the House Ways &
Means Trade Subcommittee,
U. S. House of Representative,
2204 Rayburn House Office Building
Washington, D.C. 20515
U. S. A.

Dear Sir:

Industrial Commercial Developments Limited (ICD), a group of manufacturing, distribution and financial service companies operating in Jamaica, welcomes and supports the initiative taken in the introduction of Bill H.R. 1403 which seeks to provide the basic framework to ensure that existing trading relationships between the U.S.A. and C.B.I. countries are not disrupted by NAFTA.

ICD is eager to compete with Mexico and other CBI countries on a level playing field in the North American market. To this end we have undertaken investments directed at upgrading our physical plant and equipment utilizing today's technology in the food processing and garment industries.

ICD has taken much care in ensuring that environmental standards have been met or surpassed in all our endeavours. We have also designed our employees working environments to equal those in the U.S.A. in similar industries. We are cognisant of the need for human resource development, especially in our developing economy and have taken a leading role in this area.

ICD relies upon a healthy trading relationship with the U.S.A as most of our imported purchases and a growing portion of our export trading is done with the U.S.A.

Especially in the garment industry, U.S. jobs in the production and transportation of materials will be at risk to being lost to Far East and Mexican manufacturers, who do not rely on the U.S. for materials, without H.R. 1403.

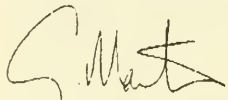
...../2

Directors Mayer M. Matalon O.J. (Chairman), Vernon C. Matalon (President), Aaron J. Matalon, O.J., Isaac J. Matalon, Owen J. Matalon, Eli Matalon, Joseph M. Matalon, Paul Matalon, Joseph A. Matalon, Ian Pitman, Errol Russell, Jean D. Sola, Janet Crooks-ba, Robert W.O. Pe-

ICD is convinced that without H.R. 1403 our investments would be jeopardized with a drift toward sourcing in Mexico. Jamaica's economy would be put at risk with the loss of investments and employment having a ripple effect throughout the economy.

We are, however, confident, that the measures set out in the Bill will go a long way to furthering the objectives of the Enterprise for the America's initiative and in general improve the quality of life of the peoples of the Hemisphere.

Yours sincerely
INDUSTRIAL COMMERCIAL DEVELOPMENTS LIMITED



Guy Martin
Vice President - Manufacturing

GM/ss

International Intellectual Property Alliance

1747 Pennsylvania Avenue, NW • Twelfth Floor • Washington, D.C. 20006
Tel (202) 833-4198 • Fax (202) 872-0546

Eric H. Smith
Executive Director
and
General Counsel

July 2, 1993

The Honorable Sam M. Gibbons
Chairman
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
1136 Longworth House Office Building
Washington, DC 20515

Re: Comments on H.R. 1403, the "Caribbean Basin Free Trade Agreements Act"

Dear Chairman Gibbons:

This letter provides the comments and concerns of the International Intellectual Property Alliance ("IIPA") has with H.R. 1403, the "Caribbean Basin Free Trade Agreements Act." This bill, in effect, would permit those Caribbean Basin Initiative (CBI) beneficiary countries to obtain "trade parity" for certain products under the same terms as contained in the North American Free Trade Agreement (NAFTA) without having to meet the same level of copyright protection required of Mexico under the NAFTA intellectual property (IP) text.[1] IIPA takes no position on the merits of this bill as a whole. However, to the extent that CBI beneficiary countries would be able to enjoy trade parity with Mexico without bringing their level of copyright protection up to that provided in the proposed NAFTA, IIPA would have to oppose this legislation.

IIPA, through its eight member trade associations, represents close to 1,500 companies that publish, produce and distribute computers and computer software; motion pictures, television programs and home videocassettes; music, records, compact discs and audiocassettes; textbooks, tradebooks, reference and professional publications and journals. The core copyright industries accounted in 1990 for over $190

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[1] The provisions of the proposed NAFTA concerning copyright protection are found at Articles 1701-1707. Enforcement provisions are found at Articles 1714-1718.

billion in value added from their copyright-related activities, or 3.3% of the U.S. Gross Domestic Product (GDP). According to a report prepared for IIPA by Economists, Inc. entitled "Copyright Industries in the U.S. Economy: 1977-1990", these industries grew at more than twice the rate of the economy as a whole between 1977 and 1990 (6.3% vs. 2.5%), and employed new workers at a greater rate (4.2% vs. 1.6%) between 1987 and 1990 -- more than any other comparably-sized sector of the U.S. economy. These industries contributed over $34 billion in foreign sales to this country in 1990.

IIPA Supports Strong Intellectual Property Protection in both the CBI and the NAFTA

Strong copyright protection and enforcement in the international arena are important components of U.S. trade policy. Over the years, IIPA has worked with the Congress and the Administration to enhance the level of protection for copyrighted works around the world. In 1983 the Motion Picture Association of America (MPAA) sought amendments to the proposed Caribbean Basin Initiative (CBI) directed at denying trade and aid benefits to countries whose government-owned broadcasters intercepted and retransmitted satellite signals carrying copyrighted films and television programs. At the same time, the Association of American Publishers (AAP) also sought a broader amendment that would assist in fighting book piracy in the region. As a result of these efforts joined in by other organizations representing intellectual property-based industries, the Caribbean Basin Economic Recovery Act (CBERA) was the first legislation passed by Congress which explicitly tied trade benefits to intellectual property protection. Shortly thereafter in 1984, the newly formed IIPA worked with this Subcommittee on additional legislation, such as the renewal of the Generalized System of Preferences (GSP) Program and the express inclusion of inadequate IPR protection as an "unfair trade practice" in Section 301 amendments adopted in the Trade and Tariff Act of 1984, and in 1988, on further amendments to Section 301, the GSP and the CBI programs and the creation of "Special 301" in the 1988 Omnibus Trade and Competitiveness Act, in order to strengthen the link between trade benefits and adequate and effective IP protection in countries receiving preferential U.S. trade benefits.

IIPA and its member associations also actively participated in the NAFTA discussions. IIPA strongly supports the copyright provisions of the intellectual property chapter of the NAFTA and considers these provisions to be minimum requirements that must be adhered to in any other bilateral or free trade context.

H.R. 1403 and Adequate and Effective Intellectual Property Protection

According to the Subcommittee's March 19 press release, the stated purpose of H.R. 1403 is to "ensure that the Caribbean Basin Initiative is not adversely affected by the implementation of the North American Free Trade Agreement and to apply 'fast track' approval procedures to free trade agreements entered into between the United States and certain Caribbean Basin countries." H.R. 1403 would provide tariff and quota treatment on imports from CBI countries which are presently excluded from such duty-free treatment; such treatment that would be identical to that of the same articles imported from Mexico under the NAFTA for a temporary period of up to three years (provided that the NAFTA rules of origin are met).[2] IIPA objects to extending NAFTA benefits to eligible products from CBI countries without requiring those same countries to elevate their levels of copyright protection and enforcement up to that of the NAFTA IP text.

Unfortunately, virtually all CBI beneficiaries fail even to comply with the IPR criteria in the CBI legislation and should not be granted additional benefits. After reviewing the ten-year history of the operation of the CBI Program, IIPA has concluded that the CBI Program has not been used aggressively enough to hold the participating countries receiving CBI beneficiary status responsible for meeting both the mandatory and discretionary criteria concerning intellectual property protection. As you know, the President must make ongoing determinations whether a beneficiary or potential beneficiary complies with both the mandatory[3] and discretionary[4] criteria in the law. These criteria include

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[2] This temporary period would commence after the NAFTA enters into force for the U.S. and terminate whenever the CBI country accedes to the NAFTA or a reciprocal free trade agreement enters into force or when the three years expire, whichever comes first.

[3] Mandatory criteria which would deny a country from becoming a CBI-beneficiary country include the expropriation of intellectual property (19 U.S.C. 2702(b)(2)(A) and (B)) and if a government-owned entity engages in the unauthorized broadcast of copyrighted material, including films or television material, belonging to U.S. copyright owners (19 U.S.C. 2702(b)(5)).

[4] Discretionary criteria regarding CBI-beneficiary designation include the extent to which a country provides "adequate and effective means for foreign nationals to secure, exercise, and enforce exclusive rights in intellectual property ..." (19 U.S.C. 2702(c)(9)) and the extent to which

obligations with respect to intellectual property protection. Unfortunately, past Administrations have not applied these criteria vigorously and many countries fail to meet the CBI IP criteria (as well as similar criteria in the GSP Program) and clearly do not meet the even higher levels of protection and enforcement required of Mexico. For example, high levels of piracy and problems in pending legislation in Guatemala, Honduras and the Dominican Republic have caused the MPEAA to file petitions to de-designate these countries from the GSP Program. Just last week USTR extended these investigations. IIPA has recently filed a petition to remove El Salvador as a beneficiary under both the GSP and CBI programs.

In Central America alone, efforts to completely revise current inadequate copyright laws are underway in El Salvador, Honduras, Nicaragua, and Panama -- all countries with high levels of piracy. None of these countries now comply with the statutory criteria of the CBI program nor do virtually all other countries in the Caribbean region. This lack of adequate and effective copyright protection was summarized in IIPA's June 17, 1993 letter to USTR responding to its notice for comments on the Caribbean Basin Economic Recovery Expansion Act of 1990. A copy of this letter is attached.

H.R. 1403 does not require CBI countries which would take advantage of this bill's concept of NAFTA "parity" to at least comply with the terms of the NAFTA IP text. Instead of promoting CBI countries to improve their copyright regimes, H.R. 1403 could have the unintended consequence of removing any economic incentive to improve protection. The U.S. would lose any leverage it now has through conditioning further benefits on improved protection. Granting additional benefits unilaterally would not in our judgement advance Congress's findings in Section 2 of H.R. 1403 to "encourage the continuation of structural reform efforts by Caribbean countries toward market economies and trade liberalization" or "to promote further economic development" and "expand United States export opportunities in the Caribbean region." U.S. copyright-based industries have little incentive to enter markets where copyright protection is inadequate and piracy levels remain extremely high.

U.S. trade policy would be better served if all CBI beneficiaries are required -- in return for increased benefits -- to put in place NAFTA-based improvements in copyright

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[4](...continued)
property ..." (19 U.S.C. 2702(c)(9)) and the extent to which a country prohibits its nationals from engaging in the broadcast of copyright material belonging to U.S. copyright owners without their express authorization (19 U.S.C. 2702(c)(10)).

protection and enforcement. Permitting additional trade preferences under "NAFTA parity" to those CBI countries which desire to be protected under this bill without any parallel commitment to improve their level of copyright protection and enforcement does not serve the goals of the CBI or of U.S. trade policy.

Conclusion

H.R. 1403 would provide CBI beneficiary countries with NAFTA "trade parity" for certain products without requiring those same countries to meet the NAFTA standards of copyright protection and enforcement. Unless these deficiencies are corrected, IIPA will have no alternative but to oppose this bill in its current form. IIPA would be pleased to work with the Subcommittee to address these concerns and improve H.R. 1403.

Sincerely,

Eric H. Smith
Executive Director
and General Counsel

Attachment

cc: Alliance Working Group

International Intellectual Property Alliance

1747 Pennsylvania Avenue, NW • Twelfth Floor • Washington, D.C. 20036
Tel (202) 833-4198 • Fax (202) 872-0546

Eric H. Smith
Executive Director
and
General Counsel

June 17, 1993

Elizabeth Addonizio
Latin America and
Caribbean Section
Office of the U.S.
Trade Representative
600 17th Street NW
Room 523
Washington, DC 20506

Re: Notice Requesting Comments on the Caribbean Basin Economic Recovery Expansion Act of 1990, 58 Fed. Reg. 21505 (April 21, 1993)

Dear Ms. Addonizio:

This submission responds to the Office of the U.S. Trade Representative's April 21, 1993 notice requesting comments on the operation of the Caribbean Basin Economic Recovery Expansion Act of 1990.

The International Intellectual Property Alliance ("IIPA" or "Alliance") consists of eight trade associations, each of which, in turn, represents a significant segment of the copyright industries in the U.S. These associations are the American Film Marketing Association (AFMA), the Association of American Publishers (AAP), the Business Software Alliance (BSA), the Computer and Business Equipment Manufacturers Association (CBEMA), the Information Technology Association of America (ITAA), the Motion Picture Association of America (MPAA), the National Music Publishers' Association (NMPA) and the Recording Industry Association of America (RIAA).

IIPA represents approximately 1,500 companies that publish, produce and distribute computers and computer software; motion pictures, television programs and home videocassettes; musical compositions, records, compact discs and audiocassettes; textbooks, tradebooks, reference and professional publications and journals. The core copyright industries accounted in 1990 for over $190 billion in value added from their copyright-related activities, or 3.3% of the U.S. Gross Domestic Product (GDP). According to a report

prepared for IIPA by Economists, Inc. entitled "Copyright Industries in the U.S. Economy: 1977-1990", these industries grew at more than twice the rate of the economy as a whole between 1977 and 1990 (6.3% vs. 2.5%), and employed new workers at a greater rate (4.2% vs. 1.6%) between 1987 and 1990 -- more than any other comparably-sized sector of the U.S. economy. These industries contributed over $34 billion in foreign sales to this country in 1990.

Copyright Protection and the Caribbean Basin Initiative

The U.S. copyright-based industries are among the few sectors of the U.S. economy that regularly contribute to a positive balance of trade. Accessible and inexpensive reproduction technologies, however, make it possible for U.S. copyrighted works to be pirated -- stolen -- around the world. In addition to the problem of piracy, many of our trading partners have erected market access barriers to U.S. copyright products. To fight these two problems, the U.S. copyright-based industries joined with the Administration and Congress to develop new legislation and negotiating tools. In 1983, the copyright-based industries actively supported the introduction and passage of legislation implementing the Caribbean Basin Initiative, in particular its IPR provisions. After the formation of the IIPA in 1984, IIPA forcefully supported the renewal of the GSP Program and the express inclusion of IPR in Section 301 in the 1984 Trade and Tariff Act, and the Section 301, Special 301, CBI and GSP amendments in the 1988 Omnibus Trade and Competitiveness Act. These amendments all concern IPR protection and/or removal of market access barriers to the IPR-based industries.

The Caribbean Basin Economic Recovery Act (also known as the Caribbean Basin Initiative (CBI)) was the first legislation passed by Congress which explicitly linked trade benefits to intellectual property protection.[1] As in the case of the GSP Program, the President makes his determinations regarding countries' CBI beneficiary status based on mandatory and discretionary criteria. Importantly, intellectual

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[1] See Section 212 of the Caribbean Basin Economic Recovery Act, Pub. L. No. 98-67 (codified at 19 U.S.C. 2702).

property provisions are included in both the mandatory[2] and discretionary[3] criteria.

After reviewing the ten-year history of the operation of the CBI Program, IIPA has concluded that the CBI Program has not been used aggressively enough to hold the participating countries receiving CBI beneficiary status responsible for meeting both the mandatory and discretionary criteria in the law.

This is an unacceptable situation and must be remedied by this Administration. The IIPA has not yet undertaken a full analysis of the level of protection afforded U.S. copyrighted works and trade losses due to piracy in all CBI beneficiary countries. However, in the context of a study of these subjects in South and Central America in 1992, IIPA members did publish a report on piracy levels and copyright protection in six of the Central American countries -- also CBI beneficiaries -- El Salvador, Guatemala, Honduras, Nicaragua, Costa Rica and Panama.[4] While the U.S. copyright-based industries suffer losses of at least $30 million annually due to the piracy of their protected works in these six countries, these same countries were permitted to import almost $700 million of their products duty-free into the U.S. in 1992 under the CBI Program, as noted in the table below:

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[2] Mandatory criteria which would deny a country from becoming a CBI beneficiary country include the expropriation of intellectual property (19 U.S.C. 2702(b)(2)(A) and (B)) and if a government-owned entity engages in the broadcast of copyrighted material, including films or television material, belonging to U.S. copyright owners without their express consent (19 U.S.C. 2702(b)(5)).

[3] Discretionary criteria regarding CBI beneficiary designation include the extent to which a country provides "adequate and effective means for foreign nationals to secure, exercise, and enforce exclusive rights in intellectual property ..." (19 U.S.C. 2702(c)(9)) and the extent to which a country prohibits its nationals from engaging in the broadcast of copyrighted material belonging to U.S. copyright owners without their express consent (19 U.S.C. 2702(c)(10)).

[4] Copyright Piracy in Latin America: Trade Losses Due to Piracy and the Adequacy of Copyright Protection in 16 Central and South American Countries (September 1992) (hereinafter Copyright Piracy in Latin America).

COUNTRY	1992 CBI IMPORTS FOR CONSUMPTION (in U.S. $)	ESTIMATED TRADE LOSSES DUE TO PIRACY (in U.S. $)
EL SALVADOR	27,248,000	7,400,000 (1992)
GUATEMALA	192,950,000	2,100,000 (1992)
HONDURAS	112,512,000	2,537,000 (1992)
NICARAGUA	40,018,000	1,328,000 (1991)
COSTA RICA	294,936,000	12,280,000 (1991)
PANAMA	23,572,000	3,800,000 (1991)
TOTAL	$ 691,236,000	$ 29,445,000

The following briefly reviews some of the piracy problems and the delays in copyright reform in these six CBI countries:[5]

El Salvador: On June 1, 1993, IIPA filed a petition with the GSP Subcommittee requesting that El Salvador be denied both GSP and CBI benefits because of its failure to meet the discretionary criteria under these two programs. For over two years, El Salvador has been drafting a new copyright law to replace its current inadequate law, a law that entirely fails to protect sound recordings. Meanwhile, no actions have been taken to address the serious piracy problems in that country. Audiocassette pirates control 95% of the market and export throughout Central America and into the U.S., video and book piracy continue unabated, and U.S. satellite signals containing copyrighted motion pictures and television programs are intercepted and retransmitted without authorization. Trade losses due to motion picture, recording and music, and book piracy in 1992 are estimated to be $7.4 million.

[5] Estimated trade losses for 1992 for El Salvador are reported in IIPA's 1993 Petition to Deny GSP and CBI Benefits to El Salvador (June 1, 1993). Trade loss estimates for Guatemala and Honduras in 1992 are reported in IIPA's 1993 Special 301 submission to USTR (February 12, 1993). Estimated trade losses for 1991 for Nicaragua, Panama and Costa Rica are reported in Copyright Piracy in Latin America.

Guatemala: MPEAA filed a GSP petition against Guatemala in 1991 because of its failure to provide adequate and effective protection for U.S. films, videos, and television programming. A major problem is the interception and unauthorized retransmission of U.S. satellite-carried programming by cable and MMDS (multichannel multipoint distribution system) systems. In early 1991, the Guatemalan legislature passed a law aimed at regulating the cable industry; this law was later suspended due to a constitutional challenge. In June 1992, USTR extended the GSP investigation.

Also in June 1992, the Guatemalan government passed a revised cable law which took effect in December 1992. To help reduce cable piracy, MPEAA set up its "Quitclaim Program" in Guatemala; this program provides cable operators in the region with an opportunity to legally retransmit certain non-premium U.S. programming. The cable operators who have stopped pirating programming and joined the Quitclaim Program now report that other cable operators, however, continue to pirate U.S. programming. The government is not effectively enforcing the cable law by shutting down operators who have not obtained authorization from U.S. copyright owners. Only part of the problem is due to the pending constitutional challenge; injunctions which have been issued in that case apparently limit the government's ability to use the penalties in the cable law.

Estimated trade losses caused by motion picture and book piracy in 1992 are $2.1 million. Guatemala's 1954 Copyright Statute is outdated and must be revised. IIPA has no confirmed information regarding that government's efforts to draft a new copyright law, although there have been some unconfirmed reports that this effort may be underway.

Honduras: After years of effort, Honduras still is in the process of drafting a new copyright law which, it is hoped, will meet internationally accepted standards. Its current inadequate law is based on a 1919 Patent Law.[6] Earlier this year there were reports that Honduras would introduce a draft copyright bill by June 30, 1993. However, we now understand that the Honduran Congress has adjourned without passing the copyright bill.

In 1992, MPEAA filed a petition to deny GSP benefits to Honduras because of its failure to provide adequate and effective protection for U.S. motion pictures, television programming, and videos. A final GSP decision has not yet

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[6] For details on the inadequacy of this law, see Copyright Piracy in Latin America at pp. 109-118.

been reached. Trade losses due to motion picture, records and music, and book piracy are estimated at $2.5 million in 1992.

Nicaragua: Nicaragua appears to be in the process of developing a new copyright law to replace the totally inadequate provisions found in its 1904 Civil Code. However, a draft reviewed by IIPA last year was found to be completely inadequate; the scope of exclusive rights is not comprehensive, penalties are too weak to deter piracy, other provisions overregulate contractual arrangements, and the terms of protection are too short.[7] Recent reports indicate that another round of revisions may be taking place. Piracy by broadcast TV stations is a serious problem; U.S. films are constantly shown, all without authorization from the U.S. copyright owners. Estimated trade losses due to motion picture and book piracy were $1.3 million in 1991.

Panama: Panama has drafted a comprehensive bill which revises its current copyright law. While there are some inadequacies in this draft law which should be corrected, it represents a significant improvement over the meager copyright provisions found in Panama's 1916 Administrative Code.[8] However, this bill appears to have been given a low priority within both the legislative and executive branches. The bill remains pending before the National Assembly. In March 1993, however, the Commission of Education in the National Assembly reportedly announced that the copyright bill was one of its two priority items. This announcement needs to be followed by concrete action. Piracy continues to be widespread. Estimated trade losses due to motion picture and book piracy in Panama were $3.8 million in 1991.

Costa Rica: For almost two years, Costa Rica's copyright law was suspended due to constitutional challenge. During the law's suspension, piracy flourished. Estimated trade losses due to piracy in 1991 were $12.2 million.[9] This suspension was lifted late last year and since then, there have been reports of a few convictions for audio piracy. A separate bill on computer software protection contains serious problems (for example, the lack of express protection for computer programs as "literary works" and an onerous registration

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[7] For further details, see Copyright Piracy in Latin America pp. 119-127.

[8] For further details, see Copyright Piracy in Latin America at pp. 128-138.

[9] For further details, see Copyright Piracy in Latin America at pp. 69-78.

requirement). These provisions require further revision and should be folded into the Copyright Law.

The Remainder of the Caribbean Region: Piracy throughout the rest of the region also thrives. It has been a long-time haven for piracy of motion picture, sound recordings and musical compositions. U.S. satellite signals, containing copyrighted programming, are intercepted and retransmitted without authorization via both cable and MMDS systems. Book piracy, particularly in the Dominican Republic, continues. IIPA's information so far is anecdotal with respect to piracy of computer software and books in the countries in this region, but there is no doubt that piracy adversely affects the markets for these works as well.

Conclusion

The CBI Program must be used more effectively by the U.S. government to require eligible countries to correct their inadequate copyright regimes. Such action is essential to both to protect U.S. intellectual property and to stimulate investment by the copyright-based companies in the region.

IIPA looks forward to working with the new Administration to make the CBI Program a truly effective trade measure to protect U.S. copyrighted material in the Central American and Caribbean region.

Respectfully submitted,

Eric H. Smith
Executive Director
and General Counsel

Maria Strong
Associate General Counsel

Before The

SUB-COMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

A Public Hearing on H.R. 1403)
On "The Caribbean Basin Free Trade)
Agreements Act")

To: The Honorable Sam Gibbons, Chairman

Motion Picture Export Association of America ("MPEAA") is a trade association representing seven of the largest U.S. exporters of theatrical motion pictures, television programming, and home video entertainment. MPEAA members include Buena Vista International, Inc.; Sony Pictures; Metro Goldwyn Mayer; Paramount Pictures, Twentieth Century Fox International Corp.; Universal International Films, Inc.; Warner Bros. International, a division of Warner Bros., Inc. Their trade names and marks include: Walt Disney Studios and Walt Disney Television and Home Video, Touchstone Pictures, Hollywood Pictures, Tri-Star Pictures, RCA-Columbia Home Video, United International Pictures, CIC Video, CBS-Fox Home Video, and MCA Television.

The purpose of H.R. 1403 is to give certain Caribbean Basin countries "trade parity" with Mexico under the North American Free Trade Agreement (NAFTA) for a period of up to three years and to apply "fast track" approval procedures to free trade agreements entered into between the United States and those countries. MPEAA is a supporter of the Caribbean Basin Initiative (CBI) program. However, MPEAA believes that the lack of action to protect US intellectual property by a number of CBI beneficiary countries renders them ineligible for continued benefits under the CBI program. This precedent argues strongly against granting these countries the trade benefits of the NAFTA program without requiring them to make the same commitments on intellectual property protection that Mexico has made in order to sign the NAFTA. Such a step would make meaningless the difficult, and commendable, steps that Mexico has agreed to take under the NAFTA agreement, and would remove any incentive for these countries to follow Mexico's example.

As part of the Caribbean Basin Recovery Act, the President is authorized to designate a country as a beneficiary of duty-free access to the U.S. market under several conditions. As part of such designation, however, he is directed [Sec. 212 (a)(2)(c)(9) and (10)] to take into consideration:

> (9) The extent to which a country provides under its law adequate and effective means for foreign nationals to secure, exercise, and enforce exclusive rights in intellectual property, including patent, trademark, and copyright rights; and
>
> (10) The extent to which such country prohibits its nationals from engaging in the broadcast of copyrighted material, including films or television material, belonging to United States copyright owners without their consent.

Under [Sec. 212] (a)(2)(b)(2)(C)(5) the President is directed not to designate any country a beneficiary under this title if:

> (5) A government-owned entity in such country engages in the broadcast of copyrighted material, including films or television material, belonging to United States copyright owners without their express consent.

Despite these provisions, MPEAA member companies continue to experience serious difficulties with illegal and unauthorized use of their product in a number of CBI countries. Ongoing violations of US copyrights in 10 of the CBI countries alone costs MPEAA member companies estimated losses of more than $6 million each year, yet under the Caribbean Basin Initiative, these same countries are awarded the significant economic benefit of duty-free access to the US market.

What follows is a overview of MPEAA concerns with respect to the lack of copyright protection in the region, as well as a country-by-country history of offenses of the CBI provisions noted above, including **Nicaragua, Honduras, Guatemala, Jamaica, Belize, Dominican Republic, Panama, El Salvador, Bahamas, and Haiti.** What this summary clearly shows is the widespread lack of copyright protection among CBI recipient countries. Mexico has taken serious steps to improve its level of copyright protection. To grant further trade benefits to these countries without similar commitments would be, we believe, a mistake.

REGIONAL OVERVIEW

In the Caribbean Islands, Central America, and the northern portion of South America, the violations of the CBI provisions for copyright protection range from the unauthorized use of satellite-carried US programming ("signal theft") by cable and multichannel microwave distribution system (MMDS) operators and over-the-air broadcasters; video cassette piracy; and unauthorized public performances of movies in hotels, condominiums, and "video cinemas".

SIGNAL THEFT

Over the past five years, the primary focus of MPEAA complaints regarding piracy in this region has been signal theft. Because these territories are located within the footprint (area of reception) of most US satellite signals, cable operators and broadcasters throughout the Caribbean Basin region are able to access satellite-carried US programming using only a satellite dish and a decoder. Operating costs for pirate systems using primarily US signals are extremely low, since these operators do not pay for the copyrights to the programming they retransmit to their subscribers. These conditions resulted in a mushrooming of pirate cable systems ranging in size from under 100 subscribers to well in the thousands. As noted below, signal theft is of paramount concern to MPEAA member companies in the region because it undermines not only the market for cable television, but also the theatrical and home video markets.

The US signals most commonly pirated by cable operators are movie channels (known within the industry as "premium" signals or "pay" services) such as "HBO", "Showtime", and "The Disney Channel". These "premium pay services" are designated as such because consumers in the US pay a separate and optional fee (known as a "tier") for each of these channels in addition to the one price paid for a number of channels included in the "basic cable service" (usually comprised of the network channels and other services such as Arts and Entertainment, USA Network, etc.) The unauthorized retransmission of premium services is a major concern to the MPEAA member companies for the following reasons:

1. **Disruption of the legitimate pattern of distribution for films sequentially from theatrical release to home video to pay television to basic television:** Theft of US satellite signals has destroyed sequential distribution in the retransmitting countries by disrupting the theatrical (cinema) markets, prohibiting any legitimate development of home video markets, and weakening the existing television markets; the loss of revenue to the MPEAA companies, therefore, goes far beyond the face value of the programming retransmitted on US satellite signals.

Major motion pictures shown on US premium pay services have never been licensed for simultaneous retransmission outside of the US. Movies released to theaters in the US are generally released in the US on home video five to six months after theatrical release; to pay television 30 to 45 days after home video release; and to broadcast television one to two years after theatrical release in the US. Movies are released to cinemas throughout Latin America around 5 to 6 months after theatrical release of these same titles in the US. The simultaneous retransmission in CBI countries of feature films telecast by US pay channels may occur during the theatrical release in CBI countries, greatly reducing any additional legitimate business opportunities in other media.

2. **Destruction of local market opportunities: June 24, 1993.** Cable operators in the Caribbean region transmit up to forty US channels, including every known US premium channel, at prices as low as $4 to $10 per subscriber per month for the entire package. (This same package, including all premium services, would cost in excess of $100 per subscriber per month in the US.)

This practice has had a number of long-term effects on the local market. First, it creates unrealistic expectations among subscribers regarding the types of programming they expect to receive, and the price they will pay for it. Second, it creates unrealistic expectations among cable operators regarding what they should be able to purchase and sell. The fact is that many of the signals they are retransmitting cannot, for reasons described below, be purchased or sold outside the US. Finally, widespread signal theft sets a price of zero for packaged cable programming, with the result that no programmer would package and sell programming to cable operators, because it is impossible to compete with the prevailing market price of zero.

Prior to the expansion of the Quitclaim Program throughout the region in 1990-91, only three US channels were legally available to cable operators in the Caribbean Basin: ESPN, CNN, and TNT. However, due to the rapid legalization of the cable industry in many Caribbean Basin countries, eleven new Spanish-language channels, containing programming specifically licensed for the Caribbean and Latin America, are being launched in the region this year by both US and Latin American programmers. New channels include two new premium pay services, "Cine Canal", and "Cinemax Ole"; as well as a number of basic tier services, including The Fox Latin America Channel, MTV Latin America, GEM TV, Teleuno, Canal Sur, The Cartoon Channel, NBC News Latin America, Geo Info, and at least two basic services which are currently being packaged by Televisa in Mexico City.

"Basic Cable" signals are also prime targets for signal theft in the Caribbean Basin. Such retransmissions affect not only program suppliers, through the loss of copyright fees for the programming carried on those signals, but also local broadcasters, who may have purchased exclusive rights to transmit programs carried on US basic cable services and networks, only to find the same programs being retransmitted for free by pirate cable operators.

The MPEAA has taken a number of steps to deal with signal theft in CBI beneficiary countries. Legal cases against cable pirates have been only marginally

successful because laws protecting copyrights are inadequate, or, where such laws exist, they are not effectively enforced.

Pirate cable operators in Honduras and the Dominican Republic have in the past attempted to counter MPEAA lobbying for improved copyright protection with proposals for "compulsory license" schemes. Compulsory licensing would permit a cable operator to retransmit any signal in return for a payment in an amount determined by the local government, to a local collection body for redistribution to claimants. Though the immediate threat of a compulsory license in the Dominican Republic and Honduras has passed, it is a recurring theme among cable operators throughout the region, and is currently gaining support in English-language territories such as Jamaica and Belize.

The institution of a compulsory license in any country in this region is extremely problematic for the following reasons: 1) It would set a dangerous precedent for the entire region and would almost certainly be copied by other countries; 2) Compulsory licensing, as was advocated in Honduras and the Dominican Republic, would include premium programming. This has not been done under any compulsory license regime in the world, including the Copyright Royalty Tribunal in the United States, and would violate international copyright agreements. As described above, any inclusion of premium programming destroys legitimate businesses in other media such as theatrical and home video. 3). It is not clear that the MPEAA member companies would receive any compensation from money submitted to a local collection body. Past experience has shown that this money often gets diverted to local causes and administration, and unduly severe requirements are placed upon non-national claimants.

In the long run, much of the solution to signal theft rests with the enhancement and/or enforcement of local statutes for the protection of copyrights and local regulation of the cable industry, along with market solutions involving the creation of new basic and pay programming licensed specifically for retransmission in Latin America. In such efforts, the MPEAA has found strong allies among legitimate broadcasters and among newly legalized cable operators who, once they have taken steps to legalize their operations, suffer most from pirate competition.

Over the past five years, the MPEAA has applied an interim measure to enable cable operators to bridge the gap between pirate operations and legal operations. This market-oriented solution, known as the Quitclaim Program, provides cable operators throughout the region with a legitimate alternative to signal theft. The Quitclaim Program enables cable operators to pay a small per-signal per-subscriber negotiated fee in exchange for the retransmission of the majority of the programming carried on basic cable signals. The MPEAA then redistributes those funds to approximately 70 program suppliers on a pro-rata basis.

To become eligible for the Quitclaim Program, cable operators must cease retransmissions of unauthorized premium movie services and replace these with legally available channels.

The combination of these services plus the basic-cable programming covered by the Quitclaim Program covers the spectrum of programming needs in CBI countries. A lack of legitimate programming alternatives can therefore no longer be offered as an excuse for signal theft in any of these countries.

VIDEO PIRACY

Video piracy throughout much of the Caribbean Basin region is at 100%. Such piracy levels have made it virtually impossible to sell legal product into many of these markets. Even vendors who want legal product cannot compete with pirates tapes whose cost covers nothing more than the price of a blank cassette.

Many current movies are available on pirate tapes in the Caribbean long before they are released theatrically in those countries. Thus, pirates not only damage legitimate video competition, they also destroy any legitimate theatrical market.

Inadequate and outdated copyright laws make combating video piracy difficult, while technology makes illegal videocassette duplication relatively easy. This lack of protection, and a lack of political will to eradicate piracy, make it very difficult to establish a legitimate video market into which legal product can be sold. However, as the Dominican Republic has shown, adequate regulation and effective enforcement can do much to restore a legitimate video market.

NICARAGUA

CBI BENEFITS: Nicaragua did not become eligible for CBI benefits until November 1990. In 1991, Nicaragua received $17 million in benefits from the CBI program. In 1992, that figure jumped to $40 million. Part of the increase was a result of Nicaragua's loss in 1992 of duty-free access benefits under the Generalized System of Preferences (GSP) program for worker rights violations. In order for Nicaragua to obtain benefits under the CBI program, whose criteria and benefits are similar to those of the GSP program, Nicaragua obtained a Presidential waiver.

DESCRIPTION OF PIRACY SITUATION: The primary piracy concern in Nicaragua is the unauthorized broadcast of MPEAA member company programming by Channel 8, a privately owned TV station, and by Channel 4, also a privately owned broadcast station. Channel 4, which is owned by the Sandinistas, reaches most of Nicaragua and has been broadcasting unauthorized movies, many of them MPEAA member company movies, throughout the day. While losses from these illegal retransmissions are difficult to estimate, they could conservatively be put at $300,000 a year.

The Nicaraguan home video market is 100% pirate, meaning that there is no legitimate market for videocassettes in Nicaragua. The estimated losses due to video piracy total US$ 180,000.

The unauthorized use of U.S. satellite-carried programming is also a very serious a problem in Nicaragua. Based on information provided locally, as of this writing there were approximately 1,500 subscribers to pirate cable systems in Nicaragua, resulting in total losses due to signal theft of US$ 148,500.

STATUS OF COPYRIGHT LAW PROTECTION: Nicaragua is a member of the Universal Copyright Convention (1952 text) since 1961 and a member of the Brussels Satellite Convention since 1979. Copyright provisions are contained in the Civil Code, which was passed in 1904. Sources in Nicaragua have informed the MPEAA that the Nicaraguan Congress is in the process of approving a new copyright law prepared by the Sandinistas which provides very little copyright protection to foreign rights holders and inadequate penalties for infringement. Some 40 of approximately 100 articles have been approved, many of which contain deficiencies and fall far below accepted international standards. MPEAA

is continuing to push for changes to these provisions.

IMPROVEMENTS NEEDED TO COPYRIGHT LAW/ENFORCEMENT PROCEDURES: The MPEAA wants the two privately owned broadcast stations, Channel 4 and Channel 8, to immediately cease all unauthorized broadcasts of MPEAA member company product. Cessation of widespread signal theft by each of the 12 pirate cable systems in Nicaragua also is urgently needed. In addition, we urge the Nicaraguan government to pass and enforce a copyright law which fulfills international standards for the protection of copyrights.
EFFORTS MPEAA HAS MADE TO ELIMINATE PIRACY/IMPROVE COPYRIGHT LAW: On May 15-16 1991, an MPEAA delegation traveled to Managua to meet with a number of Nicaraguan government officials to discuss the future of the film industry in that country. During these meetings, it was suggested that a copyright expert from the Interamerican Institute on Copyright be invited to come and speak before the Nicaraguan National Assembly.

MPEAA has had continuing contact with Nicaraguan government officials to request their assistance in dealing with widespread piracy. However, the government has taken no action in response to MPEAA complaints.

HONDURAS

CBI BENEFITS: Honduras was designated a CBI under the CBI program rose from $56.18 million to $112.5 million.

DESCRIPTION OF PIRACY SITUATION: Signal theft is the chief area of concern in Honduras. Legitimate business is compromised by the open downlinking of US signals, which are then retransmitted by over-the-air broadcast (free) television and by an increasing number of cable systems all over the country. The two largest offenders are Channel 6 in San Pedro Sula and Channel 21 in Tegucigalpa. An estimated 21 pirate cable operations, notably Mayacable in San Pedro Sula, are engaged in the unauthorized retransmission of MPEAA member company product.

On June 2, 1992, the MPEAA filed a petition with the United States Trade Representative to deny GSP and CBI benefits to Honduras because of the Honduran Government's inaction on the copyright law and on signal theft. In May 1992, the Honduran Cable Operators Association had attempted to pass compulsory license legislation which would have legalized the ongoing theft of programming. The MPEAA's GSP/CBI filing specifically requested the withdrawal of the compulsory license proposal, which was done immediately. However, no further action has been taken to date to curb signal theft in Honduras. Honduras has been given until August to redeem its pledge to enact a new and adequate copyright law.

The video cassette market in Honduras is 100% pirate and none of our member companies have entered that market due to the rampant piracy and the lack of a legislative basis for defending their intellectual property rights.

STATUS OF COPYRIGHT LAW PROTECTION: There is no possibility for an anti-piracy litigation program in Honduras because the legal framework is inadequate. Thus far, there have been no enforcement actions in Honduras because there is no copyright law.

Honduras became a member of the Berne Convention (1971 text) on January 25, 1990, but is not a member of the Universal Copyright Convention. Although it has no specific copyright law, Honduras has included very limited copyright provisions in the Patent Law, which was passed in 1919 and was amended in

1935 and 1939. A Copyright Law has been under review in the Honduran legislature for some years and the Honduran government has said it will pass a law by August. No other actions have been taken by the Honduran Government to deal with broadcast piracy and rampant signal theft by cable operators.

IMPROVEMENTS NEEDED TO COPYRIGHT LAW/ENFORCEMENT PROCEDURES: Adoption of adequate intellectual property legislation, including the passage of a modern and comprehensive copyright law. Cable and video regulations are also required to deal specifically with the regulation of these industries.

EFFORTS MPEAA HAS MADE TO ELIMINATE PIRACY/IMPROVE COPYRIGHT LAW: There is a draft copyright law currently pending in the Congress and the MPEAA is participating in lobbying efforts in support of the law. Due to the Honduran Government's inaction on all piracy matters, MPEAA is pressing for the withdrawal of Honduras' GSP and CBI benefits.

ESTIMATED LOSSES DUE TO PIRACY: MPEAA member company losses due to signal theft are estimated at US$297,000. Losses due to video piracy are estimated at US$252,000.

GUATEMALA

CBI BENEFITS: Guatemala was designated a CBI beneficiary on January 12, 1984. In 1992, Guatemala exported $192.95 million worth of goods to the US under the CBI program, up from $77.26 million in 1988.

DESCRIPTION OF PIRACY SITUATION: Until December, 1992, Guatemala had the largest illegal cable industry in the Caribbean Basin region, with over 100 cable operators illegally retransmitting up to 40 US channels each, and charging subscription fees of as little as $4.00 per month. On June 16, 1992, following MPEAA's 1991 petition for the withdrawal of Guatemala's trade benefits under the GSP and CBI programs, Guatemala passed a cable law which required cable operators to obtain permission from and make payments to copyright holders for use of copyright programming. The law allowed cable operators six months to stop pirating and purchase legitimate programming.

Guatemalan cable operators were encouraged to cover retransmissions of basic US programming through the Quitclaim Program, and to purchase premium and basic services available for sale (i.e. Turner International, HBO Ole, ESPN). MPEAA urged cable operators to make their programming arrangements early, as programming contracts take some time to complete. As an added incentive, MPEAA allowed cable operators who had stopped retransmitting premium US movie services by September 14, 1992, to obtain Quitclaim agreements at prices below those paid by cable operators in other countries in the region ($.11 per signal per subscriber per month).

Between September 14, 1992, and January, 1993, the MPEAA received a total of 11 Quitclaim applications from Guatemalan cable operators, 8 of which have been signed by the cable operator and counter-executed by the MPEAA. The largest head-end group of operators, known as Intercentro S.A., applied for the program and paid their deposit on December 28, 1992. Intercentro included twenty of the major cable systems in the Capital within its application, and the MPEAA assumed that the agreement would be signed and implemented without difficulty. However, Intercentro has never signed its agreement and never paid Quitclaim fees for the basic cable channels they retransmit. MPEAA has had to cancel the outstanding contract and return Intercentro's deposit (since the agreement was never signed). Meanwhile, an additional 27 operators are paying monthly Quitclaim fees and abiding by the terms of the Quitclaim contract, but

these operators report heavy losses in subscribers to operators who continue to pirate. (In Guatemala, unlike most countries, more than one cable operator will serve the same area, thus providing direct competition.)

What is lacking in the Guatemalan Government's implementation of the Cable Law is a rigorous review of contracts authorizing cable operators to retransmit programming. Such authorization is required by the Cable Law, as discussed below. Although the majority of cable operators have ceased retransmissions of US premium signals such as HBO and Showtime, the MPEAA has received numerous reports of unauthorized broadcasts of US films taped off of premium services or from home videocassettes. There is no evidence that these activities are being consistently monitored by the Guatemalan government or the cable operators penalized for infringements. Indeed, the Direccion Radiodifusion (the Radio Broadcasting Bureau, which regulates both broadcasting and cable) has never contacted the MPEAA (with the exception of a brief introductory phone call) either to authenticate those Quitclaim contracts which have been signed or to determine if any non-Quitclaimed operators are retransmitting US programming without authorization.

HOME VIDEO PIRACY: The market for video cassettes in Guatemala is 100% pirate, meaning that there are no legitimate MPEAA member company sales of video cassettes recorded in the country.

Losses due to video piracy are estimated at US$ 1,170,000. The changing nature of the enforcement situation on cable makes it difficult to estimate losses from signal theft and retransmission.

STATUS OF COPYRIGHT LAW PROTECTION: Guatemala's Copyright Statute (Law No. 1037), which was written in 1954, is very weak and does not provide proper legal protection for cinematographic works. For example, the law is not clear on whether works have to be registered in the copyright registry in order to be afforded the law's protection. Guatemala is not a member of the Berne Convention but is a member of the Universal Copyright Convention (text of 1952) as of October 28, 1964.

The "Law To Regulate the Reception, Use and Distribution of Satellite Signals and their Distribution by Cable" was passed in June, 1992, and went into effect on December 17, 1992. However, implementation of Article 9, which requires cable operators to pay for programming, has been weakened by the injunctions ("amparos") filed by cable operators who were penalized for unauthorized retransmissions of the Spanish-language signals Telemundo and Univision. Local counsel reports that, even though the injunctions do not bar the Radio Broadcasting Bureau from enforcing Article 9, they are nonetheless accepting a minimum amount of evidence of copyright coverage to avoid another injunction. For example, it has been reported that Intercentro S.A. was allowed to use letters written to program suppliers requesting programming for its system to fulfill the requirements of Article 9, even though these letters did not result in the signing of any contracts and no payment was made for the use of the programming.

This "watering down" of the rules relating to the requirement that cable operators pay for their programming severely damages those cable operators who have actually obtained contracts and paid for all programming, thus undermining the purpose of the Cable Law.

IMPROVEMENTS NEEDED TO COPYRIGHT LAW/ENFORCEMENT PROCEDURES: The Guatemalan government should fully implement the June 16, 1992 Cable Law, including instituting a review of all program contracts to ensure that each cable operator has purchased the rights to the programs he is

retransmitting to subscribers. Penalties should be strictly applied in all cases of infringement. The copyright law should be revised to include substantially increased penalties (including criminal penalties) for infringement. There are unconfirmed reports that the government may be in the process of drafting a new copyright law.

EFFORTS MPEAA HAS MADE TO ELIMINATE PIRACY/IMPROVE COPYRIGHT LAW: On June 4, 1991, MPEAA filed a petition asking the US Trade Representative to revoke Guatemala's GSP and CBI benefits. A Cable Law was passed in June, 1992, and implemented in December, 1992. However, this law has not been fully enforced by the Guatemalan Government, monitoring of programming contracts is lax, and implementation of penalties authorized under the law is effectively halted by two injunctions (amparos) filed by cable operators against the law. USTR extended the GSP review in 1992 and has not rendered a decision in this case.

COSTA RICA

CBI BENEFITS: Costa Rica was designated a CBI beneficiary on January 12, 1984. In 1988 Costa Rica exported $141.1 million to the US under the CBERA provisions; by 1992, that figure had more than doubled to $294.9 million.

DESCRIPTION OF PIRACY SITUATION: The Costa Rican video market is 100% pirate, as there is no legitimate market for videocassettes. 1992 losses due to video piracy are estimated at $780,000. Signal theft, which had been a major problem in Costa Rica, has largely been weeded out due to the implementation of MPEAA Quitclaim agreements with the country's four major cable operators. Ongoing support from the US Government and the Costa Rican Ministry of Foreign Commerce will be required to deal with the very serious level of video piracy in Costa Rica.

STATUS OF COPYRIGHT LAW PROTECTION: Costa Rica became a member of the Universal Copyright Convention in 1955 and adhered to the 1971 UCC text in 1980. Costa Rica also became a member of the Berne Convention on June 10, 1978. Costa Rica has its own Copyright Law (No. 6683) which was passed on October 14, 1982, and amended on February 9, 1984.

IMPROVEMENTS NEEDED TO COPYRIGHT LAW/ENFORCEMENT PROCEDURES: The law should be clarified to make unauthorized retransmissions by cable an infringement and to narrowly define the public performance exception for educational purposes. For almost two years, the Copyright Law was suspended due to a constitutional challenge. Piracy flourished before the suspension was lifted in late 1992.

EFFORTS MPEAA HAS MADE TO ELIMINATE PIRACY/IMPROVE COPYRIGHT LAW: The MPEAA Quitclaim Program played a key role in eliminating cable piracy in Costa Rica. Additional efforts are now needed by the Costa Rican Government to deal with widespread video piracy.

ESTIMATED LOSSES DUE TO PIRACY: Losses due to video piracy are estimated at US$ 780,000.

DOMINICAN REPUBLIC

CBI BENEFITS: The Dominican Republic was designated a CBI beneficiary on January 12, 1984. Between 1988 and 1992, US imports of products from the Dominican Republic under CBERA provisions rose from $242.6 million to $566.2

million, making the DR the single largest beneficiary under the CBI program.

DESCRIPTION OF PIRACY SITUATION: Following the MPEAA's June, 1992 petition for the withdrawal of the Dominican Republic's benefits under the GSP and CBI programs, the DR Government took several steps to resolve piracy problems. All major cable operators in the capitol have ceased retransmissions of premium US services, and signed Quitclaim agreements to cover retransmissions of basic cable programming. Cable and video regulations were signed by President Balaguer on May 31, 1993. However, no action has been taken to deal with continued piracy by Channel 6, an over-the-air station in Santo Domingo, and the video market is still 100% pirate. Additionally, Telecable de la Romana, a cable system serving the resort area of La Romana, continues to pirate both premium and basic cable signals.

STATUS OF COPYRIGHT LAW PROTECTION: The Dominican Republic is not a member of the Berne Convention, but became a member of the Universal Copyright Convention on May 8, 1983. In 1947, the Dominican Republic passed Copyright Law No. 1381, on the Registration and Protection of Copyright. This has since been replaced by Copyright Statute No. 32-86, in effect since July 4, 1986, which does provide for protection against signal theft and video piracy, but has not been effectively enforced in the past. The new cable and video regulations will provide further protection against copyright infringement, if enforced.

IMPROVEMENTS NEEDED TO COPYRIGHT LAW/ENFORCEMENT PROCEDURES: The new cable and video regulations are adequate, although clarification of a number of provisions would make enforcement easier. These amended regulations must be enforced on an ongoing basis to protect the interests of copyright holders and newly legalized operators like.

EFFORTS MPEAA HAS MADE TO ELIMINATE PIRACY/IMPROVE COPYRIGHT LAW: MPEAA member companies filed special administrative complaints against pirate cable systems three years ago, but the courts have taken no action on these complaints. Out-of-court agreements were reached when the cable operators ceased unauthorized retransmissions of premium programming in December, 1992. A criminal action filed by MPEAA member companies the broadcast station Channel 6 on January 16, 1990 remains stalemated in the courts. No hearing on the merits of this case has ever been held.

ESTIMATED LOSSES DUE TO PIRACY: Estimated losses due to video piracy are US$ 720,000. Due to changes made in the past year by the Dominican Government, losses due to signal theft by Channel 6 and remaining cable pirates are as yet undetermined.

PANAMA

CBI BENEFITS: Panama was designated a CBI beneficiary on January 12, 1984. Panama's eligibility for CBI benefits was suspended by President Reagan on March 11, 1988, as a result of its failure to cooperate fully with US drug-control efforts. Following the return of democratically elected government to Panama, CBI benefits were restored on March 17, 1990. Overall, US imports from Panama under the CBERA provisions totaled $63,229 between 1988 and 1992. 1992 benefits totaled $23,752,000.

DESCRIPTION OF PIRACY SITUATION: The most pressing anti-piracy problem for the MPEAA in Panama is video piracy.

In addition, signal theft by private satellite dish-owners is an increasing concern

to member companies. The MPEAA has received complaints from Cable Onda, a large legitimate cable operator (previously known as "VISAT"), regarding the pirating of US premium signals such as HBO and Showtime by local condominium owners with satellite dishes. Through local mechanisms, representatives of Cable Onda claim to have successfully ended a large part of such piracy in the La Cresta section of Panama City. However, individual condominiums throughout the City continue to acquire parabolic dishes and offer unauthorized premium services to their residents.

STATUS OF COPYRIGHT LAW PROTECTION: Panama does not belong to the Berne Convention but joined the Universal Copyright Convention in 1962 and adhered to the 1971 text in 1980. Its 1916 Administrative Code of 1914 contains some copyright provisions dealing with literary and artistic works, but these provisions do not afford any real protection to audiovisual works. A draft copyright law is currently making its way through the Panamanian National Assembly, with the strong support of the MPEAA and other local copyright groups. It has received a first reading. This law has been opposed by organized pirate video dealers and radio broadcasters, but nevertheless it appears likely to be passed by the end of 1994.

There are strong indications that one of the principal members of the APR (Panamanian Radio Association), who also sits in the Committee of Communications of the Chamber of Commerce (Fernando Eleta Casanova) is lobbying within those premises against the law. He recently stated during a radio interview that the draft copyright law should be replaced because it greatly favors "transnationals". He does not agree with the sanctions contained in the law, and it is rumored that he is preparing to mount another attack when the law goes into second debate. This could prove very harmful since legislators are seeking re-election this year, and those who support the law may be intimidated by the possibility of bad press from radio broadcasters.

Strong support of the copyright law by the US Government will greatly enhance its chances of passing through the Panamanian legislature this year. (The current legislative session ends June 30, 1993. The next session begins in September and ends on December 31, 1993. A second and third reading of the bill is expected in September.)

IMPROVEMENTS NEEDED TO COPYRIGHT LAW/ENFORCEMENT PROCEDURES: The first priority in Panama should be to gain passage of the copyright law, because it will serve as the basis for future cable legislation.

EFFORTS MPEAA HAS MADE TO ELIMINATE PIRACY/IMPROVE COPYRIGHT LAW: The MPEAA has been successful in bringing legal actions based on provisions of the 1916 Administrative Code together with general provisions of the UCC and the penal code. We are lobbying for enactment of a more modern copyright law.

The MPEAA has had Quitclaim agreements with Panamanian cable operators since 1987. One operator, Cable Onda 90, began as a very small system of approximately 500 subscribers based on retransmission technology alone. This system now has nearly 20,000 subscribers and a legitimate stand-alone movie channel made up of films purchased directly from MPEAA member companies. The Cable Onda system provides strong evidence that cable systems can operate successfully in the Caribbean Region without pirating US signals.

ESTIMATED LOSSES DUE TO PIRACY: Estimated MPEAA member company losses due to video piracy are US$1,800,000.

EL SALVADOR

CBI BENEFITS: El Salvador was designated a CBI beneficiary on January 12, 1984. US imports for consumption under CBERA provisions totaled $135.4 million from 1988-1992. 1992 benefits totaled $27.2 million.

DESCRIPTION OF PIRACY SITUATION: Signal theft is a continuing problem in El Salvador. Although the majority of cable operators have signed Quitclaim agreements and purchased premium programming, these legal systems suffer continuing competition from a pirate system in San Salvador known as Telesat/Futurama, which has both cable and UHF transmission facilities.

The home video market in El Salvador is 100% pirate.

STATUS OF COPYRIGHT LAW PROTECTION: El Salvador is not a member of the Berne Convention but became a member of the Universal Copyright Convention on March 29, 1979. El Salvador has several applicable laws, including Copyright Statute No. 376 (1963), Decree No. 116 on the Registration of Works (1964), and the Law on Commercial Registration (1973), which requires that works be registered in order to protect copyright interests. The Penal Code of 1904 includes only limited criminal sanctions for infringement.

The 1963 Copyright Statute provides broad protection for the rights of artistic works, and defines copyright infringement as any act which damages or prejudices the financial interests of an author.

The authorities in charge of granting licenses for cable and TV operators nominally require presentation of evidence of authorization by the owners of the programs to be transmitted. However, this has not been enforced.

IMPROVEMENTS NEEDED TO COPYRIGHT LAW/ENFORCEMENT PROCEDURES: The Salvadoran government should be asked to do the following: amend the copyright law to internationally accepted standards; ensure that works do not need to be registered in order to have civil or penal legal action brought to protect them; educate the judiciary and enforcement agencies in copyright protection; expedite legal proceedings. Also, penal actions should not require the filing of a complaint by the copyright holder. The authorities should have the right to proceed on their own. Finally, governmental permissions to operate UHF/cable systems should be suspended if the operator cannot show proper contracts with copyright holders.

EFFORTS MPEAA HAS MADE TO ELIMINATE PIRACY/IMPROVE COPYRIGHT LAW: The MPEAA has negotiated Quitclaim agreements with five Salvadoran cable systems to enable them to retransmit programming carried on up to ten US basic channels. MPEAA has worked with the government regulatory agency, ANTEL, to ensure the smooth operation of these contracts.

ESTIMATED LOSSES DUE TO PIRACY: Based on local information, there are approximately 20,000 subscribers to Telesat/Futurama, each of whom pay an average monthly subscription rate of US$10, resulting in losses of up to US$ 792,000.

BAHAMAS

Bahamas adhered to the substantive provisions of the 1948 Brussels text of the Berne Convention in 1973 and joined the UCC in 1976. Its Copyright Act follows the United Kingdom Copyright Act (1956). The Trademarks Act (1906,

amended 1959, 1960) also is used to combat piracy. The Xanadu Beach Hotel Case, a case brought against a hotel for illegal public performance of MPEAA member companies' product, was settled in 1987 for $25,000. Piracy involving signal theft through privately owned TVRO dishes also is a problem. Loss estimates are not available.

JAMAICA

The Jamaica Broadcasting Corporation, a government-owned and operated over-the-air broadcaster, is engaged in signal theft, **in direct contravention of [Sec. 212] (a)(2)(b)(2)(C)(5) the Caribbean Basin Economic Recovery Act.** JBC has continued taking programming from US domestic satellites and retransmits that programming to its viewers without the appropriate licensing from the MPEAA member companies. This practice is increasingly intolerable because it may carry over to newly authorized private stations. JBC has been warned many times that it must stop its practice of retransmitting programs from satellite transmissions (or any other source) without an express license.

Jamaica has adhered to the substantive provisions of the 1948 Brussels text of the Berne Convention since 1976. Jamaica passed a new comprehensive copyright law which was published in the Official Gazette on November 10, 1992.

HAITI

Haiti is a member of the Universal Copyright Convention since 1955 (1952 text). Its copyright law is contained in the Decree of Copyright (1968). Other laws used to combat piracy include the Trade Marks Law of July 17, 1954 (amended 1956); Decree of 1960; Decree of 1964. According to a 1988 report, there is a large population of privately owned TVRO dishes and evidence of unauthorized broadcasts via Channel 6.

Country	Population (000)	Movie* Theaters	TV* Stations	#TV Sets (000)	# VCR's (000)
Anguilla	6	N/A	N/A	N/A	N/A
Bahamas	200	N/A	N/A	52	17
Belize	200	N/A	N/A	N/A	2
Costa Rica	3,000	70	7	550	65
Dominica	100	N/A	N/A	N/A	N/A
Dominican Republic	7,200	164	7	453	60
Jamaica	2,400	N/A	1	252	101
Nicaragua	3,900	83	2	25	15
Panama	2,400	42	4	275	150
St. Lucia	200	N/A	N/A	2	N/A
Montserrat	12	N/A	N/A	N/A	N/A
El Salvador	5,300	60	4	450	66
Grenada	100	N/A	N/A	2	2
Guatemala	9,200	103	4	635	85
Haiti	6,500	N/A	2	65	3
Honduras	5,100	127	8	155	21

*Source: MPEAA FACT BOOKS

CARIBBEAN BASIN INITIATIVE BENEFITS

Country	U.S. imports for consumption under CBERA provisions (In thousands of dollars) in 1992
Costa Rica	$ 294,936
Honduras	$ 112,512
Panama	$ 23,752
Nicaragua	$ 40,018
Dominican Republic	$ 566,178
El Salvador	$ 27,248
Guatemala	$ 192,950
Belize	$ 23,732
Jamaica	$ 48,155
Bahamas	$ 93,324

Testimony of James A. Langlois
Executive Director
National Apparel and Textile Association

Mr. Chairman:

I am James A. Langlois, the Executive Director of the National Apparel and Textile Association (NATA), a non-profit trade association representing manufacturers and importers of textile and apparel products and related service industries. We have over 70 member companies. NATA has been active in opposition to textile quota legislation and in support of the Uruguay Round and NAFTA. Our members and staff have testified on numerous occasions before your committee and before the Senate Finance Committee.

NATA supports the North American Free Trade Agreement (NAFTA) as a useful step in liberalizing trade generally, and specifically in the western hemisphere. Our members currently manufacture and import apparel products from many sources around the world, including Mexico and the Caribbean. Under NAFTA, imports from Mexico would clearly increase because of more favorable quota and duty treatment and because of proximity to the U.S. market.

NATA also supports H.R. 1403 for two major reasons, both directly related to our business and to the changing environment in which our members work.

First, although our members are highly sophisticated companies with global sources for many of their products, sources closer to home are in demand because of the stagnant U.S. market and the need to be able to respond quickly to changes in the marketplace. Consequently, just as we support NAFTA, we also support H.R. 1403 as a means of creating new opportunities for other suppliers closer to home.

Second, while we strongly support trade liberalization in textiles and apparel, we also wish to avoid serious disruptions in existing trade patterns. We understand that free trade agreements by their nature grant individual countries certain advantages over other countries in terms of access to our markets. We accept that principal, particularly when the long term goal is to liberalize trade. In the case of NAFTA, we are strongly in support of extending these benefits to other Latin American countries through a series of free trade deals. However, in the short term, we believe NAFTA could be very disruptive to the CBI countries in the case of textiles and apparel. Therefore, we support the extension of NAFTA benefits to the CBI countries for textile and apparel products.

We believe that the extension of benefits, with the conditions included in your bill, are a fair response to the potential disadvantage to the CBI countries and would create additional sourcing opportunities for our members.

I appreciate the opportunity to provide you with these comments and urge you to move the bill forward. Thank you.

[BY PERMISSION OF THE CHAIRMAN]

STATEMENT OF THE PRIVATE SECTOR ORGANISATION OF JAMAICA LTD.

PSOJ's SUBMISSION ON H.R. 1403

THE CARIBBEAN BASIN FREE TRADE AGREEMENT ACT

The Private Sector Organisation of Jamaica is pleased by the initiative taken by Congressman Sam Gibbons, Chairman of the House Ways and Means Trade Sub-Committee in the introduction of the Bill H.R. 1403 which seeks to minimise any negative effects of NAFTA on the exports from CBI countries. We fully supports this Bill especially in this rapidly changing decade of the 1990s when the world is experiencing the most fundamental changes in political and economic systems since the second World War. Here in the Caribbean region, many of the countries are way ahead in adjusting their economies toward greater competitiveness and dynamism. One can now witness in these countries a renewed effort to liberalize the economies in the Caribbean in order to improve the region's competitive standing with the United States of America and the World economy in general. This Bill provides us with an opportunity to advance the economic adjustment processes and facilitate our ability to participate on a level playing field in the North American Market.

The Caribbean's reliance on a healthy trading relationship with the United States is very critical given the declining trend in resource flows to the region. To illustrate, total

resource flows to the Caribbean, from all sources, approached US$9.2 billion during 1989, representing a modest decrease in nominal terms from flows registered at the beginning of the decade. This fall in trend is more worrying as the Caribbean countries did not record positive per capita growth during the 1980s.

Merchandise exports, currently responsible for 70-80% of foreign exchange flows into the Caribbean, have declined over the decade to $6.6 billion in 1989. Private flows, consisting of commercial bank lending, direct foreign investment and export credits, were negative throughout 1981-1989, representing minus $334 million in 1989. Tourism receipts however, advanced 110% over 1981-89, reaching $2.6 billion.

Further, it should be noted that between 1987-90, the United States consecutively registered a trade surplus with the designated CBI countries. The U.S. trade surplus with the CBI countries totalled $1.8 billion in 1990. The trade surplus was driven largely by the record high level of U.S. exports to the CBI countries, which rose from $8.1 billion in 1989 to $9.3 billion in 1990 and represented 2.5 percent of U.S. exports worldwide in 1990. Clearly, U.S. industries and jobs would be protected by the H.R. 1403 legislation.

It is evident therefore that as a longer-term strategy, the Caribbean cannot depend on U.S. and other donor economic assistance flows to satisfy future resource needs.

We are therefore heartened by the recognition, evident in the introduction of the bill, of the fact that there is great complementarity between the economic health of the United States and that of the Caribbean Region, and that maintaining trade provisions under the Caribbean Basin Initiative also promotes the economic and political stability in the Region which will allow the expansion of trade opportunities for the United States.

Within the Region, we are cognisant of the fact that the wise use of natural resources is crucial to achieving sustainable development. Further, increased trade with the United States of America within the basin framework of H.R. 1403 will allow Caribbean Countries to promote sustained natural resources management and respect and establish standards for workers' rights.

We are ready and willing to collaborate with the United States of America in promoting this Bill as we are confident that it will fulfill the objectives of the Enterprise for the America's Initiative in creating economic integration in the Hemisphere.

WINSTON & STRAWN

FREDERICK H. WINSTON (1853-1886)
SILAS H. STRAWN (1891-1946)

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July 2, 1993

HAND DELIVERY -- BY MESSENGER

The Honorable Sam M. Gibbons
Chairman
Subcommittee on Trade
House Committee on Ways and Means
U.S. House of Representatives
1136 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Gibbons,

I am writing you at this time to express the views of the Queensland Sugar Corporation and CSR, Ltd. on the sugar provisions of H.R. 1403, a bill to ensure that the Caribbean Basin Initiative is not adversely affected by the implementation of the North American Free Trade Agreement. CSR, Ltd. is an Australian corporation and the agent of the Queensland Sugar Corporation in the marketing abroad of sugar produced in Australia. We are taking this occasion to reinforce the views that were previously expressed to you on H.R. 1403 by the Embassy of Australia in a letter dated April 30, 1993.

In brief, the bill is designed to provide so called NAFTA parity to the 14 CBI beneficiary countries. We wish to point out that the import access of all countries, including Australia, that traditionally export sugar to the United States has been declining over the years. Under the recent announcement of the Administration regarding sugar that may be imported during the two year period 1992 to 1993, Australia's sugar access for 1993/1994 will be around 81,500 tons. This is a reduction to one-tenth of the level achieved at the beginning of the 1980s. The provisions of NAFTA are anticipated to result in even further erosion of the U.S. market for exports from Australia since we fully expect that NAFTA will result over time in Mexican sugar displacing sugar from other quota holders.

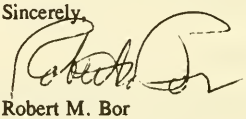
H.R. 1403 exacerbates these adverse effects by requiring the President to take action to protect the Caribbean Basin countries from any loss of access to the U.S. sugar market that may result from NAFTA. The implementation of these safeguard provisions can only come at the expense of other traditional suppliers such as Australia. The effect of this legislation is to cause a further significant decline in Australia's access to the U.S. sugar market. We believe that these discriminatory measures are unfair and inconsistent with the GATT, as previously raised with you by the Embassy of Australia.

Australia has been a traditional friend of the United States. As you no doubt are aware, the United States currently enjoys a 2:1 trade advantage with Australia. We believe that penalizing Australia is the wrong way to address the problem created by the domestic sugar program. Any legislative action should benefit all importing countries alike and should not be discriminatory in nature.

Accordingly, it is our hope that if H.R. 1403 should move forward in the legislative process changes will be made in the sugar provisions to take our concerns into account and eliminate these unfair provisions.

We would appreciate your including this letter in the record of the Hearing on H.R. 1403.

Sincerely,



Robert M. Bor
Washington Counsel

Summary of comments of the Rubber and Plastic Footwear Manufacturers Association in opposition to HR.1403.

The Rubber and Plastic Footwear Manufacturers Association (RPFMA) is the spokesman for manufacturers of most of the waterproof footwear, rubber-soled fabric-upper footwear and slippers produced in this country. The names and locations of the manufacturers appear on Appendix I.

HR 1403 would apply the terms of the recently negotiated NAFTA to Caribbean Basin countries for a period not to exceed three years beginning on the date of the NAFTA implementation. If during that three year period a free trade agreement is negotiated with any Caribbean Basin country, such agreement will supersede the terms of HR 1403. On the other hand, if a free trade agreement is not negotiated during that period the tariff reductions then in place will be expunged and the level of tariffs will revert to where they are today.

The rubber footwear and slipper industry objected to the negotiation of a free trade agreement with Mexico; when it lost that battle it sought to be excluded from the terms of any such agreement; and when it became apparent that there would be no exclusions, this industry argued for the longest possible tariff phase-out and the strictest possible local content requirement. In recognition of the import sensitivity of this industry and of the threatened loss of American rubber footwear and slipper jobs as a result of free trade with Mexico, the parties to NAFTA agreed to a 55% local content requirement and to a tariff phase-out of fifteen years. (Only seven-tenths of 1% of all U.S. manufactured products are subject to a fifteen year phase-out.) In recognition of our Government's good faith effort to take the import sensitivity of this industry into account, rubber footwear and slippers - while not endorsing NAFTA - will not oppose NAFTA's implementation.

For the following reasons the application to the Caribbean of the NAFTA terms for rubber footwear and slippers will not have a meaningful impact on this industry during the three year period proposed for that application: Section 222 of the Customs and Trade Act of 1990 already provides for duty-free treatment for footwear from the Caribbean when manufactured with American components. Since rubber footwear and slippers can easily be made with American components, Section 222 already has the virtual effect of providing for duty-free imports of footwear from the Caribbean. Moreover, the one-fifteenth reduction on duties for each of three years for any rubber footwear not using domestic components is by itself unlikely to induce new footwear production in the Caribbean absent good reason to believe that free trade agreements will be negotiated during that period. Any company taking such a risk would do so in the knowledge that failure to negotiate an agreement would mean a snap-back of its tariffs.

Having said this, this industry nonetheless strongly opposes the passage of HR 1403 because its terms, so far as footwear is concerned, are directly contrary to the terms of HR 795, a bill which is also pending before this Committee. HR 795, a clone of which passed both Houses last year as part of the tax bill then vetoed by President Bush, amends Section 222 so as to restore the exclusion of Caribbean footwear from duty-free treatment.

When HR 1385, last year's bill to amend Section 222 so as to exclude footwear with domestic components from duty-free treatment, was before this Committee we pointed out that duties on rubber footwear and slippers are relatively high, with the consequence that duty elimination would be particularly drastic. Despite these high duties, 1992 imports of fabric upper footwear

with rubber soles took 76% of our domestic market. Indeed, the import sensitivity of rubber footwear and slippers is such that their duty levels were maintained in both the Kennedy Round and the Tokyo Round, and there is reason to believe that the United States negotiators in the Uruguay Round will not agree to duty cuts which would imperil the existing level of employment in this industry.

In the course of our statement to the Ways and Means Committee urging the adoption of HR 1385, we said that "What is not debatable is that duty-free treatment for the Caribbean is an irresistible inducement to domestic companies to close plants...and to shift their operations to the Dominican Republic and Honduras." We pointed out that many domestic companies had, since the passage of Section 222 in 1990, visited the Caribbean in order to assess the potential for production there. The passage of an amended version of HR 1385 by both Houses last year has restrained domestic companies from acting on their assessment of opportunities in the Caribbean and from substituting production there for production in this country. It is the domestic industry's hope that such legislation will finally become law this year so that the remaining domestic companies can continue to produce in the United States.

HR 795 is identical to the amended version of HR 1385 which passed last year. That amendment is particularly relevant to the Committee's consideration of HR 1403 and to an evaluation of the claim made by this industry that "duty-free treatment for the Caribbean is an irresistible inducement...to shift...operations to the Dominican Republic and Honduras." In order to secure House conferees' agreement to the inclusion of HR 1385 in last year's tax bill, it became essential to continue to exclude from duty the products of two companies with plans for expansion in the Caribbean. Those companies were U.S. Shoe and Carter Footwear.

Shortly after passage of this amended bill by both Houses, U.S. Shoe closed its plant in Ripley, Ohio, and opened an expanded operation in Honduras. A description of those coincidental events was set forth in the October 18, 1992, Cincinnati Enquirer. According to that reputable newspaper, the October closing of the Ripley plant caused the permanent lay-off of 355 workers. This factory was Ripley's largest employer and had been in existence for forty years. The closing followed 1991 U.S. Shoe factory shutdowns in Greenfield, Ohio, and in Falmouth, Kentucky. We are not in a position to know whether the product manufactured in Ripley was in fact transferred to Honduras as a direct consequence of Congressional assurance that U.S. Shoe would continue to have duty-free treatment for its Caribbean production. We do, however, think it reasonable to infer that the products manufactured by that company in the Caribbean could have provided continued employment for the 355 men and women discharged from the Ripley, Ohio plant.

Similarly, the only other company for which an exemption was provided in last year's bill (and is provided in this year's HR 795), Carter Footwear, expanded its production in its Dominican Republic plant just as it was closing its plant in Jasper, Georgia; the Jasper closing meant a loss of jobs for 200 employees in that small community. That expansion and plant closing both took place coincident with the passage of the exemption for Carter.

There is, of course, nothing wrong with a company wanting to maximize its profits and to take advantage of inducements offered by the Government. Indeed, HR 795 continues that inducement for Carter and U.S. Shoe, and the rubber footwear and slipper industry does not object to it in view of the investments made by these companies with our Government's specific encouragement. We would like to think, however, that that encouragement would not

have been offered had the Government known of the consequent plant closings in Ripley, Ohio and Jasper, Georgia.

The accuracy of our prediction last year that duty-free treatment would cause a shift of domestic production to Honduras and the Dominican Republic calls to mind an old bit of wisdom that is applicable to consideration of HR 1403 and to HR 795: "Fool me once, shame on you; fool me twice, shame on me."

Is this industry's concern about the impact on it of low-cost, duty-free imports from the Caribbean justified? Attached hereto as Appendix II is a table from the most recent ITC Statistical Report on the footwear industry, showing that imports of fabric-upper footwear with rubber or plastic soles from the Dominican Republic increased in volume from 566,000 pairs in 1991 to 2,953,000 in 1992, or by about 421%, and increased in value from $699,000 to $7,165,000, or by about 925%.

Attached as Appendix III are production employment tables, from figures provided by the Bureau of Labor Statistics, showing the serious decline in employment which the domestic rubber footwear and slipper industry has experienced over the past several years.

Labor costs constitute approximately 40% of the total cost of rubber footwear and slippers. If what is left of this industry is to survive, it must be given an opportunity to compete on a fair basis with those countries whose wage levels are from one-tenth to one-twentieth of what is paid in this country. Accordingly, we urge this Committee to reject HR 1403 and to turn its attention to the demonstrated need for the adoption of HR 795.

Respectfully yours,

Mitchell J. Cooper
Counsel, Rubber and
Plastic Footwear
Manufacturers Association

APPENDIX I

RUBBER AND PLASTIC FOOTWEAR MANUFACTURERS ASSOCIATION
(June, 1993)

American Steel Toe Co.
P.O. Box 959
S. Lynnfield, MA 01940-0959

Converse, Inc.
One Fordham Road
North Reading, MA 01864

Draper Knitting Co., Inc.
28 Draper Lane
Canton, MA 02134

Frank C. Meyer Co.
585 South Union Street
Lawrence, MA 01843

Franklin Plastics
113 Passaic Avenue
Kearney, NJ 07032

Genfoot America, Inc.
South Street
Littleton Industrial Park
Littleton, NH 03561

Kaysam Corporation of America
27 Kentucky Avenue
Paterson, NJ 07503

Kaufman Footwear Corporation
P.O. Box 9005
410 Kitchner, Ontario N26 4J8
Canada

Kaumagraph, Inc.
525 W. South Street
Kennett Square, PA 19348

LaCrosse Footwear, Inc.
P.O. Box 1328
LaCrosse, WI 54602-1328

New Balance Athletic Shoe, Inc.
38 Everett Street
Allston, MA 02134

Servus Rubber Co., Inc.
P.O. Box 36
Rock Island, IL 61204-0036

S. Goldberg & Co., Inc.
20 East Broadway
Hackensack, NJ 07601-6892

Supreme Slipper
Manufacturing Co., Inc.
P.O. Box 1376
Lewiston, ME 04240

Tingley Rubber Corporation
200 South Avenue
P.O. Box 100
S. Plainfield, NJ 07080

APPENDIX II

Table A.--Fabric upper footwear with rubber or plastic soles, U.S. imports for consumption, by principal sources, October-December 1990-92, and annual 1990-92

Source	Oct-Dec			Percentage change, Oct. - Dec. 1992 From Oct. - Dec. 1991	1990	1991	1992	Percentage change, 1992 From 1991
	1990	1991	1992					
	(In thousands of pairs)							
Republic of Korea	8,001	7,761	7,978	2.8	34,104	37,886	35,819	- 5.5
China	19,493	30,787	30,649	- 1.0	116,809	132,801	148,878	25.1
Taiwan	5,063	2,648	1,811	- 31.6	17,518	12,784	9,838	- 23.1
Indonesia	152	1,378	2,161	56.9	491	4,381	8,878	102.6
Thailand	1,031	1,880	2,400	25.1	8,978	7,661	10,025	30.8
Mexico	3,814	4,918	6,958	41.5	17,304	17,818	19,477	11.7
Hong Kong	465	1,241	1,200	- 3.3	4,044	5,873	4,372	- 8.5
Dominican Republic	98	186	1,263	670.1	186	868	2,863	421.7
Philippines	163	239	410	71.8	998	887	1,442	62.1
Italy	68	84	48	- 30.8	164	126	143	13.3
Brazil	1	125	108	- 13.7	83	355	765	116.6
Israel	33	80	91	26.3	249	359	726	34.7
Germany	5	1	24	300.0	19	81	635	19.0
Canada	27	80	69	- 10.0	82	126	122	- 1.2
Malaysia	21	88	45	- 48.9	430	136	279	105.1
Spain	10	88	18	- 88.0	734	96	114	18.9
France	17	18	4	- 49.2	73	60	80	- 14.3
Croatia	0	0	8	0.0	0	0	6	0.0
Singapore	0	6	43	180.0	0	7	62	787.1
United Kingdom	17	0	8	800.0	83	18	12	- 7.1
All Other	117	108	46	- 38.9	1,324	879	408	- 53.4
Total	38,780	51,945	55,744	7.3	199,191	213,340	256,975	20.4
CBI total	98	164	1,263	670.1	173	871	2,955	417.5
EC total	99	73	79	8.3	1,018	331	580	75.2
	(In thousands of dollars)							
Republic of Korea	75,907	80,866	115,111	42.3	350,143	317,708	415,935	30.9
China	28,908	32,482	40,108	23.4	144,778	131,648	168,400	28.3
Taiwan	21,731	24,211	24,179	- 0.1	122,115	111,728	111,623	- 0.1
Indonesia	868	4,511	9,467	109.9	1,958	16,841	26,178	254.5
Thailand	2,931	4,944	6,283	24.7	19,718	29,394	37,358	27.1
Mexico	7,289	9,436	8,457	- 10.2	39,010	36,783	35,006	- 4.8
Hong Kong	1,918	1,903	3,155	65.8	7,740	7,907	10,908	38.0
Dominican Republic	77	244	2,274	27.3	173	699	7,168	925.0
Philippines	439	818	1,571	92.1	2,513	3,070	6,664	85.1
Italy	460	642	823	28.1	2,744	2,044	3,270	59.8
Brazil	9	221	528	138.9	254	498	1,661	144.9
Israel	166	351	440	25.9	1,580	2,632	3,327	26.4
Germany	22	43	428	879.6	134	412	1,016	147.0
Canada	193	458	377	- 17.7	568	1,054	1,070	8.4
Malaysia	84	151	184	5.0	1,348	606	1,211	100.8
Spain	277	170	243	42.9	1,284	634	955	50.6
France	419	178	208	18.4	1,259	1,208	1,177	- 2.6
Croatia	0	0	189	0.0	0	0	189	0.0
Singapore	6	6	138	180.0	6	66	180	127.1
United Kingdom	129	49	110	800.0	241	153	376	145.8
All Other	1,183	611	1,437	35.6	9,748	6,403	7,885	43.2
Total	141,357	164,011	215,664	44.0	691,154	740,315	1,324,059	38.7
CBI total	77	288	1,978	98.6	357	1,176	7,176	898.1
EC total	1,340	932	1,451	77.1	7,976	4,357	6,987	53.1
	(Per pair)							
Republic of Korea	9.49	10.38	14.16	36.6	8.10	10.83	12.79	21.5
China	1.47	1.70	2.35	40.8	1.20	1.81	2.01	24.8
Taiwan	7.11	7.90	14.83	87.0	7.03	8.73	11.48	33.8
Indonesia	4.42	4.81	7.91	78.4	3.79	5.84	6.50	75.1
Thailand	3.84	3.87	3.67	- 5.1	3.68	3.83	3.72	- 2.9
Mexico	1.90	1.96	1.78	- 10.7	2.02	1.86	1.79	- 4.0
Hong Kong	4.38	4.83	6.41	71.6	1.90	1.34	1.71	27.4
Dominican Republic	.78	1.00	2.18	48.9	.92	1.15	2.61	96.7
Philippines	2.89	3.42	3.83	12.0	2.71	3.58	3.94	10.1
Italy	16.42	17.76	34.94	96.7	16.63	16.80	22.84	36.5
Brazil	9.00	1.67	3.14	88.0	4.79	1.98	2.39	22.6
Israel	4.96	4.81	4.78	- 27.0	4.33	4.88	4.58	- 6.1
Germany	17.33	83.00	17.83	- 71.7	17.78	19.61	4.33	- 77.9
Canada	7.22	5.16	8.87	8.4	6.84	8.38	8.93	6.9
Malaysia	4.00	4.32	8.68	31.5	3.12	4.44	4.34	- 2.5
Spain	9.23	6.80	13.80	98.6	4.89	6.66	8.23	27.6
France	25.06	13.44	50.80	278.2	16.97	20.13	23.84	16.9
Croatia	.00	.00	23.82	0.0	.00	.00	31.62	.0
Singapore	.00	.00	8.00	.0	.00	9.42	2.80	- 71.5
United Kingdom	7.56	23.00	27.33	33.5	7.30	11.74	31.53	164.4
All Other	7.68	5.66	7.87	47.0	7.30	4.71	8.77	86.4
Total	3.63	3.44	3.87	37.7	3.47	3.46	5.16	49.0
CBI total	.78	1.76	2.38	44.1	1.99	1.35	2.42	79.6
EC total	13.51	10.74	21.31	79.8	7.83	13.14	17.04	29.7

SOURCE: Compiled from official statistics of the U.S. Department of Commerce.

APPENDIX III

PRODUCTION EMPLOYMENT
(in thousands)

RUBBER AND PLASTIC FOOTWEAR

1973	26.3	1983	14.1
1974	25.3	1984	14.0
1975	22.3	1985	10.9
1976	21.6	1986	9.2
1977	20.9	1987	9.4
1978	21.0	1988	9.7
1979	19.9	1989	9.0
1980	19.8	1990	8.9
1981	19.0	1991	8.7
1982	16.2		

	1988	1989	1990	1991	1992
January	9.8	9.0	9.0	8.5	9.0
February	10.1	9.1	9.1	8.7	9.2
March	10.2	9.1	9.2	8.7	9.1
April	10.1	9.0	9.1	8.7	9.1
May	10.2	8.9	9.0	8.8	8.9
June	9.9	9.0	9.0	8.8	8.8
July	9.0	8.7	8.5	7.5	8.5
August	9.5	8.2	8.9	8.9	7.9
September	9.3	9.3	8.9	9.0	7.9
October	9.3	9.4	8.8	9.1	8.5
November	9.3	9.2	8.8	8.7	8.5*
December	9.2	8.9	9.6	9.1	

PRODUCTION EMPLOYMENT
(in thousands)

SLIPPERS

1973	10.2	1983	6.5
1974	9.7	1984	6.0
1975	7.8	1985	5.1
1976	7.2	1986	4.4
1977	7.2	1987	4.7
1978	7.5	1988	4.6
1979	7.1	1989	4.2
1980	7.5	1990	3.7
1981	8.2	1991	3.5
1982	7.5	1992	3.2

	1988	1989	1990	1991	1992
January	3.8	3.6	3.0	2.7	2.5
February	4.2	4.3	3.7	3.4	2.8
March	4.4	4.4	3.7	3.3	3.0
April	4.6	4.4	3.8	3.6	3.1
May	4.8	4.4	3.9	3.7	3.1
June	4.9	4.4	3.8	3.8	3.3
July	4.7	4.3	3.5	3.4	3.0
August	4.8	4.6	3.8	4.0	3.7
September	5.0	4.3	4.1	4.0	3.8
October	4.9	4.5	4.2	4.0	3.8
November	4.7	4.1	3.7	3.5	3.3
December	3.9	3.6	2.8	2.6	2.4

*: preliminary data

Source: Bureau of Labor Statistics, U.S. Department of Labor

COMMENTS ON H.R. 1403

"THE CARIBBEAN BASIN FREE TRADE AGREEMENTS ACT"

BEFORE THE SUBCOMMITTEE ON TRADE

COMMITTEE ON WAYS AND MEANS

These comments are submitted on behalf of the Section 222 Coalition, whose members include the following footwear companies: The Timberland Company, headquartered in Hampton, New Hampshire; Lowell Shoe, Inc., headquartered in Hudson, New Hampshire; Rocky Shoes & Boots, a division of Wm. Brooks Shoe Company, headquartered in Nelsonville, Ohio; G.H. Bass, Inc., headquartered in Falmouth, Maine; and Sperry Top-Sider, Inc., a division of the Stride-Rite Corporation, headquartered in Cambridge, Massachusetts.

NAFTA BENEFITS FOR CBI COUNTRIES

The Section 222 Coalition supports H.R. 1403, legislation to extend the benefits of the North American Free Trade Agreement (NAFTA) to Caribbean Basin countries. Without this legislation, the implementation of the NAFTA could jeopardize the Caribbean Basin Initiative program (CBI) which many U.S. footwear companies and U.S. suppliers have come to depend upon as an alternative to Asian production.

Many U.S. companies have made substantial investments in the Caribbean. Diversion of this production could be devastating to the economies of the host Caribbean countries and would disrupt the effective production/supply pipeline already in place.

MAINTAINING VITAL CBI PROVISIONS

The Section 222 Coalition is pleased to see that H.R. 1403 acknowledges that NAFTA treatment for Caribbean Basin countries can only be beneficial if the CBI program remains in place until fully replaced by NAFTA benefits.

Section 222 of the CBI allows U.S. footwear companies to remain competitive in the world market while utilizing 100% U.S.-made components and materials. It offers direct incentive to U.S. footwear companies to purchase components and materials from U.S. vendors, creating employment opportunities here in the U.S. that would not otherwise exist. Only with 222 intact are U.S. manufacturers of components and materials assured a growing market. Without the economic incentive of Section 222, most footwear companies could not remain competitive while continuing to use 100% U.S.-made components and materials, and would be forced to source their products from the Far East, as so many footwear manufacturers have already done.

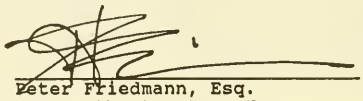
Once a company shifts production to China, and other Asian countries, they can and do utilize less expensive, foreign-made components and materials. The resulting loss of orders will result in dramatic decline of the U.S. footwear component/material supplier industry.

In sum, Section 222 must be retained because it saves jobs in the U.S., while creating an economic base among our Caribbean neighbors.

CONCLUSION

The Section 222 Coalition fully supports this legislation to extend benefits of the North American Free Trade Agreement to Caribbean Basin countries, and to maintain the CBI program until fully replaced by the benefits of the NAFTA.

Submitted on behalf of the Section 222 Coalition:
The Timberland Company
Lowell Shoe, Inc.
Wm. Brooks Shoe Company
G.H. Bass, Inc.
Stride-Rite Corporation



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[BY PERMISSION OF THE CHAIRMAN]

the shipping association of jamaica

5-7 King Street, Kingston 15, Jamaica

July 6, 1993

The Honourable Sam Gibbons
Chairman
Subcommittee on Trade
House Ways and Means Committee
1136 Longworth House
U.S. House of Representatives
Washington D.C. 20515

Re: H.R. 1403, The Caribbean Free Trade Agreements Act

Dear Mr. Chairman,

The Shipping Association of Jamaica wishes to express its wholehearted support for the Caribbean Free Trade Agreements Act.

Our Association represents forty-two companies who move cargo between Jamaica and overseas ports including those of the United States of America. In 1992 the companies of our Association handled 782,000 tons of freight, seventy percent of which originated in the United States.

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We are of the view that the coming into force of a North American Free Trade Area which does not seek to offer to products of CBI nations the same treatment as that given Mexico stands to impact very negatively on the volumes of trade moving between our nations.

Currently, twenty-four percent of Jamaica's total merchandise exports are apparel and this is perhaps the sector which stands to be the most adversely affected under a NAFTA Agreement which gives preferences to Mexico over those accorded to the CBI.

A fall off in the volume of cargo which could result from NAFTA would seriously affect the viability of our operations and jeopardize the jobs of those 4,000 workers employed in the movement of cargo and those involved in the many aspects of the production and export of these goods.

The introduction of H.R. 1403 is a welcome measure which assures us that recognition is being given to the importance of maintaining a solid foundation, in CBI countries, for trade to be sustained and expanded for the mutual benefit of our countries. We commend the vision which prompted this initiative and stand ready to give our support to the furthering of mutually beneficial terms of trade.

Yours sincerely,

Charles Johnston
Charles Johnston
President

Timberland®

COMMENTS ON H.R. 1403

"THE CARIBBEAN BASIN FREE TRADE AGREEMENTS ACT"

BEFORE THE SUBCOMMITTEE ON TRADE

COMMITTEE ON WAYS AND MEANS

This statement is submitted on behalf of the Timberland Company ("Timberland"), which is very concerned about efforts to repeal Section 222 of the Caribbean Basin Initiative ("CBI"). Section 222 directly benefits Timberland, as well as many other U.S. companies.

Extending NAFTA To CBI Countries

Timberland supports H.R. 1403, legislation which would extend the benefits of the North American Free Trade Agreement ("NAFTA") to Caribbean Basin countries. Without this legislation, the implementation of the NAFTA could jeopardize the CBI program, which many U.S. footwear companies -- including Timberland -- and U.S. suppliers have come to depend upon as an alternative to Asian production.

Timberland and other U.S. footwear companies have made a substantial investment in the Caribbean. Diversion of this production could be devastating to the economies of the host Caribbean countries and would disrupt the effective production/supply pipeline already in place.

Maintaining Section 222

I am pleased to see that H.R. 1403 acknowledges that NAFTA treatment for Caribbean Basin countries can only be beneficial if the CBI program remains in place until fully replaced by NAFTA benefits.

The general purpose of CBI is to keep as much footwear as possible from fleeing to offshore locations, such as to the Far East. Section 222 allows footwear produced in certain Caribbean countries with 100% U.S.-made components to enter the United States duty-free. Thus, Section 222 has offered an incentive to Timberland to purchase U.S.-made components, often in instances where the cost of those U.S.-made components has been higher than prices offered by foreign suppliers. If Section 222 is not maintained, this incentive will be eliminated.

It is obviously far better for companies such as ours to manufacture products closer to home with U.S.-made components and materials than to shift production to foreign nations, using foreign components and materials. Loss of Section 222 will eliminate a competitive advantage for Timberland, which will necessarily cause Timberland to reevaluate both where it produces and where it purchases its components and materials. This will translate directly into a loss of jobs in the United States where U.S.-made components/materials are being manufactured by other companies and are currently being purchased by Timberland.

In sum, Section 222 must be retained because it saves jobs in the U.S., while creating an economic base among our Caribbean neighbors.

The Timberland Company
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Conclusion

Timberland fully supports this legislation to extend benefits of the NAFTA to Caribbean Basin countries, and to maintain the CBI program until fully replaced by the benefits of the NAFTA.

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